The Analysts Journal

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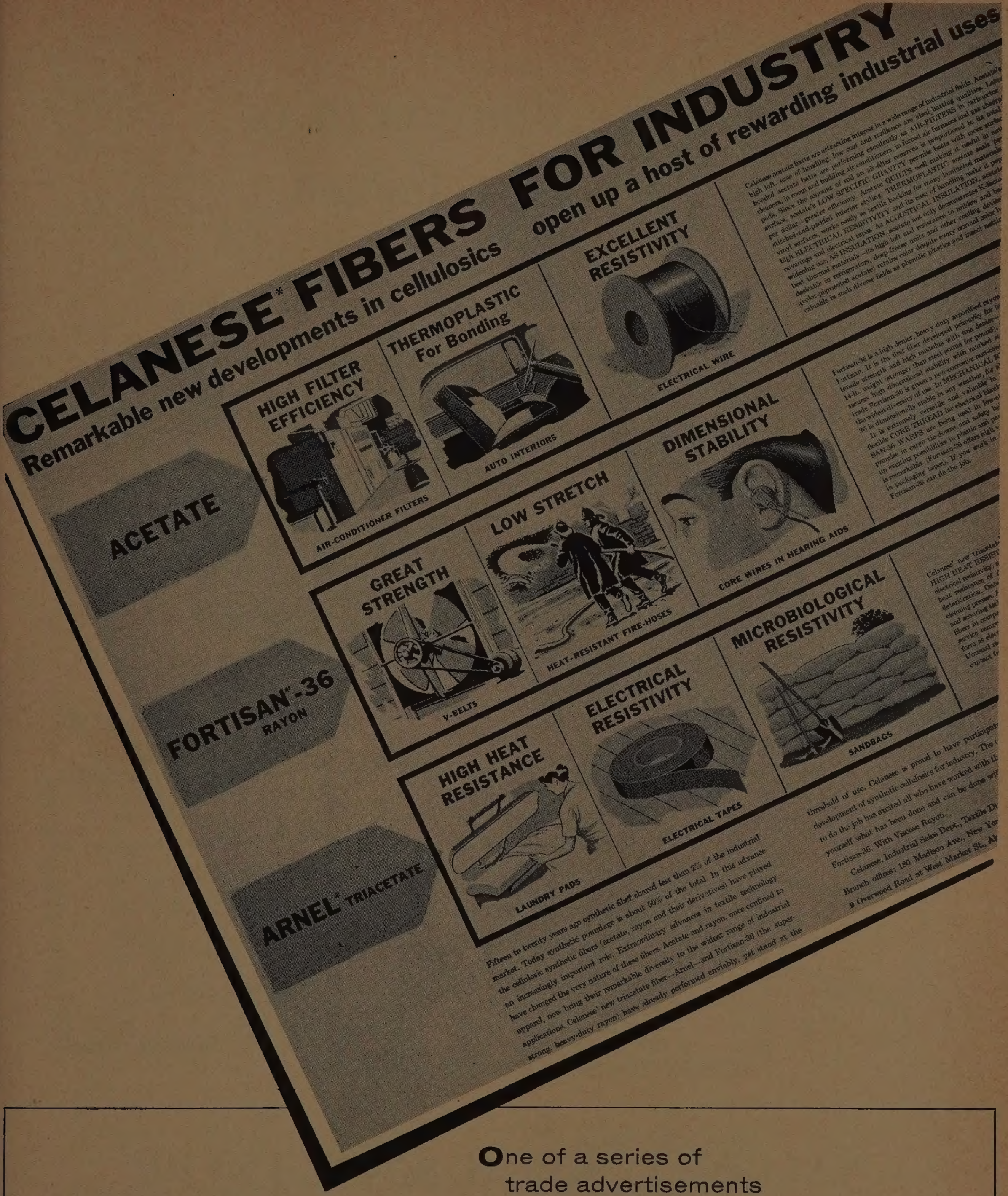
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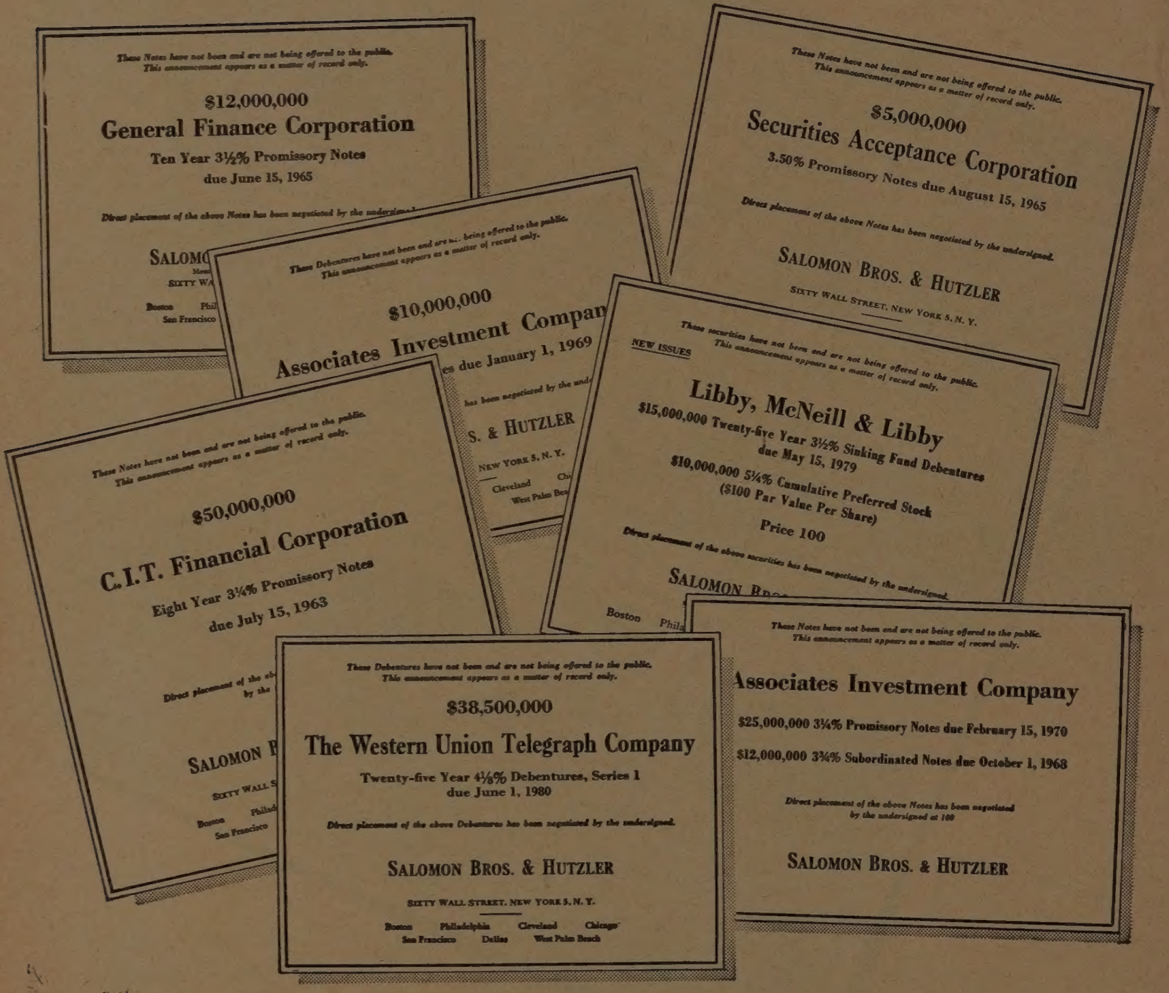

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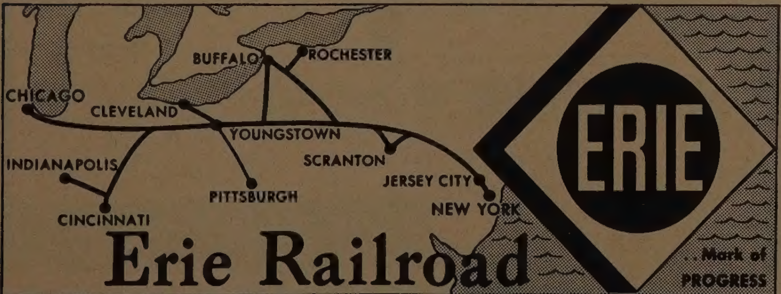

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The Analysts Journal

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VOLUME 11
NUMBER 5

Security for Security Analysts

MOST ALL SECURITY ANALYSTS are so taken with finding stock bargains for their firms that they often neglect giving thought to their own security. Some few became aware of this need in 1952. By 1953 they brought to the consideration of The New York Society of Security Analysts a comprehensive plan of accident and sickness insurance. The program was designed along lines successfully used by professional societies and it offered optional types of coverage designed to meet the varying requirements of New York's membership. Resulting from numbers of inquiries received, the National Federation's directors have approved an insurance program and an Insurance Committee has been created to work out the details. The Indemnity Insurance Company of North America has agreed to extend this insurance program to all member societies. Our prospectus will be made available to each society upon approval by its Executive Committee and appointment of one of its members to the National Federation Insurance Committee.

All local societies wishing to offer this program to their membership will be enrolled as an individual group. The plan is identical for each society but claims experience will be based upon the national group plan rather than on an individual society basis. Each society that elects to offer this plan to its membership will receive local claim service.

In terms of cost and coverage this program was found to compare very favorably with other group accident and health professional organization insurance. Furthermore, the cost to an individual of securing similar coverage without the group provisions would be materially higher.

Insurance is available during the initial enrollment period of each society to those under age 70 for the basic coverage subject to satisfactory application. If half of the eligible members of each individual society enroll then all who applied will be granted insurance regardless of medical history. Basic coverage includes two years of sickness indemnity and five years of accident indemnity at varying weekly rates depending upon the plan selected. Moreover, there are benefits for accidental death or serious injury.

Optional coverage is available to members under sixty years of age subject to proof of good health and provides additional accidental death and dismemberment benefits, hospitalization and surgical indemnity. Coverage for dependents' hospitalization and surgical expenses is also available.

The president of each of the member societies has been informed of the availability of this insurance program. Due to administrative requirements it cannot be offered simultaneously to each of the member societies. The plan will be presented to all member societies desiring it with those showing greatest interest receiving enrollment preference. Once the individual societies have approved the program the plan will be made available to the members as promptly as possible and each member will then receive complete details as to coverage and cost. The firm of Despard & Co., Inc. is acting as administrator of the program and a representative of that firm has been assigned to make arrangements with each individual society that wishes to offer the program to its membership.

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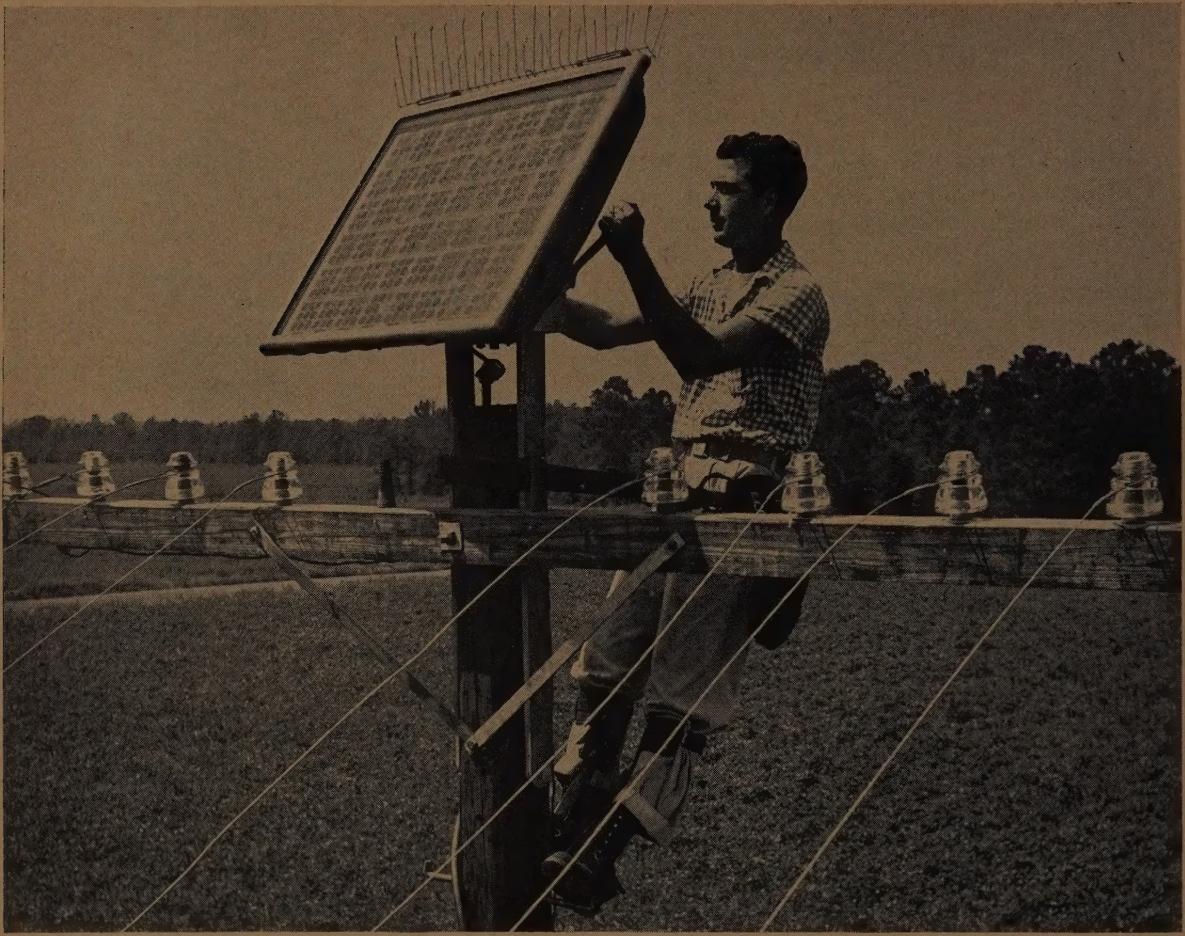

Bell Solar Battery is mounted on telephone pole at Americus, Georgia, to power an amplifier on rural telephone line.

Bell Solar Battery

TAKES ANOTHER STEP FORWARD

Bell Telephone Laboratories invention to convert sun's rays into electricity now used in interesting test. Has wide possibilities for telephone service and in many other fields.

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Mounted on a telephone pole, it furnishes electric power during daylight hours. At the same time it charges a storage battery to provide power for nighttime operation and periods of cloudiness.

What has been done so far is the opening of a door through which we can glimpse exciting new things for the future. Increasing hope for success in harnessing more and more of the power of the sun has come from the Bell Telephone Laboratories development of the Bell Solar Battery.

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Types of Analysts Abroad

SHELBY CULLOM DAVIS

ON JUNE 29TH LAST at the close of a busy day some 200 men and a girl quietly filed into Beaver Hall of the historic Hudson Bay Company in the downtown City of London. Promptly at 5:30 the chairman called the meeting to order. "Lady and gentlemen," he said, after banging the gavel. Everyone turned ever so slightly — to see if the chairman was right. He was.

THE LONDON ANALYSTS SOCIETY

And so opened the inaugural meeting of the London Analysts Society. The chairman was Stewart Allison, economist of Samuel Montague & Co., Ltd., one of London's so-called "merchant banks" and dealers in bullion. The audience came from the City (as the financial district is termed) with representatives from other parts of England. The locale: Was there any significance to Beaver Hall? Was it a subtle reference to the activity of analysts, to their persistence, to their constructive qualities? Probably only a happy circumstance — happy too that the site chosen was the assembly room of a centuries' old organization founded upon overseas activities. Only this time the New World had blazed the trail for the Old.

Oh yes, the girl? There were two speakers at the affair, the distinguished editor of *Investors Chronicle,* Harold Wincott, and ourselves. In the crush which always surrounds a dais after a successful meeting, the girl got away, but she was identified as a bona fide analyst. Shortly thereafter our hosts whisked us uptown to Rules near Covent Garden, a favorite with finance and theatre since Edwardian days where the London Analysts Society was again properly launched.

ANALYSTS HAVE BECOME INDISPENSABLE

Analysts are stirring abroad. In the old days, as Mr. Wincott observed, analysts were expendable. Not so today. Because with the great rise in worldwide markets due to revalorization (a favorite expression abroad signifying the upward adjustment of security prices to the post-war prices of food, lodging and haircuts) there is greater and greater emphasis upon selectivity. If we may borrow from a slogan, it used to be thought smart to be "cautious" in the post-war years. Actually it was a most unwise concept. Now it is, and no doubt really is, intelligent to be selective. And who can select better than those whose business is selection and that means the analysts.

COMMON DISCUSSION BEGAN

London could not have been the world's banker so successfully for so long without depending a great deal upon the analyst. But until last June 29th the analysts were in an inchoate state. Some individuals knew each other from Parson's Pleasure days at Oxford or from punting on the Cam, but in general there was not much opportunity for common discussion of mutual problems. Not that there were not plenty of questions to evaluate: the ever present position of sterling and the Old Lady of Threadneedle Street, the nationalized industries, investments in South Africa, Argentina, Canada and almost any other place in the world where British capital has found a resting place, including the United States. In addition were matters right at home. What the such and such company actually earned last year or what the Commercial Union portfolio really is worth at current market values assumed importance. There is much conjecture about issues such as the latter because in some instances essential facts are lacking, but problems were never lacking, nor the need for answers. It was only the time and initiative required to start something new in as tradition-bred territory as London's City, where gentlemen still stroll across the floor of the stock exchange in tall silk toppers, that retarded the advent of the analysts.

Time will tell much of the London Analysts Society, now over the hurdle of its initial meeting, and from that doughty band of original organizers who pioneered the initial effort so successfully. They are Stewart and Douglas Allison, James Masters, Henry Warner, Mills Taub, Hubert Cove and the others, as well as that young lady who "got away."

GREETINGS FROM AMERICA

We took the liberty in our address to bring a message of greeting from the 4,500 financial analysts of America to the financial community of Great Britain and expressed the hope that some way might be found for an affiliation of financial analysts of the two countries in an "across the seas" gesture of international amity. We furthermore envisaged an International Federation of Financial Analysts Societies which would be of inestimable aid in the coming period of international lending and investing.

BOULEVARD QUATRE SEPTEMBRE

All is not "beer and skeatles" among analysts abroad. It is less than an hour's journey by air from the City of London to the "Boulevards of Paris"—but it is a little bit like the old vaudevillian who spent a year in Philadelphia last weekend. Part of the charm of Paris is the atmosphere of the Empire (either the I or III Napolean) which lingers on. A good deal of this lingering occurs around the boulevard Quatre Septembre where many of the stock brokers have their offices. The financial center of France located between the Opera and the Bourse has led some wags to note an influence of the former in the latter. There are few more diverting incidents than to lunch at the plush Caneton near the Bourse just before the magic hour of 12:30 noon when the opening takes place. All at once an outbreak occurs sounding like a din of divas or lions who have waited a century for a martyr. The Bourse is open only two hours so that business must be done at 2.7 times the intensity and volume of New York.

DIFFICULTIES OF ANALYSTS IN PARIS

In France there are only approximately 70 *Agents de Change* (owners of stock exchange seats) and their activities as far as analysts are concerned are carefully proscribed. No *Agent de Change* can advertise or even have his name plate on the street. It follows from such obligatory passion for anonymity that no stockbrokers are permitted to circulate studies of companies or in fact to recommend that a client either buy or sell—or even continue to hold a certain security. It is almost as if the French Government had said many years back: "All right, if any one is so foolish as to want to smoke opium, certain dens are available and legal. But no one can be persuaded or influenced in his choice of the drug." It is small wonder that analysts must operate under another name in France. Under present conditions any analysts society would probably have to be clandestine and meet in the back room of the Cafe des Finances on alternate Thursdays at midnight.

WHEN NATIONALIZATION WAS IN FLOWER

Officials of the Bourse say its activities had been dormant through the occupation and postwar years when nationalization was in flower (the principal so-called public utility industries of France were nationalized during this period, including the four largest banks and eleven largest insurance companies). Then along came M. Pinay in 1952–53, who reacted upon the French rentiers in about the same manner M. Poincare did some thirty years earlier —by generating confidence in the stability of the franc. Money began to trickle on to the Bourse to buy up shares at bargain prices. Then oil was struck near Bordeaux in Southern France and all at once the Bourse was on the front pages, with Esso Standard multiplying ten times in several years. This overnight creation of wealth had a profound effect and soon even old ladies were besieging the *Agents de Change* for oil stocks which might increase their widows' mites. This came just at the same time the Williston Basin oil play was taking place over here. Human nature is alike the world over! From then on the Bourse and the *Agents de Change* were in business again and they have been prosperous ever since. The analysts in France are conspicuous by their absence. This does not prevent full disclosure from being the rule, however, but it is of a less statistical sort.

"YOU CAN'T BEAT THE DUTCH"

In Holland there seems to be plenty of analysis but it is done by almost everyone from the porter to the *Voorzitter* (the man who sits before, hence the chairman). Plenty of hard thinking is being done in Holland and it is not by chance that the expression arose, "You can't beat the Dutch." What was disturbing in our progress along the Heerengracht (the financial canal of Amsterdam) was that the Dutch have turned sellers of "Americans." Seemingly the reasons have nothing to do with America's future. There has been a capital levy in Holland to pay for war damages. The need of capital at home for reconstruction has been tremendous, especially in ravaged Rotterdam. Yields are now better in Holland and Germany than in the "States."

DUTCH STATISTICS

We were impressed with the wealth of statistical information in Holland and indeed rather overpowered by it. We asked the President of the Nationale Levensversekering-Bank N. V. (the largest life company in Holland, assets nearly $200 million) if his company reported to the shareholders and if we might see a copy of the report. The inquiry seemed to amuse him, and for good reason. The report, which is available to everyone (all secrets bared), runs to 191 pages, 9 x 12, including not only the book and market of all the liquid assets, location of all the mortgages and names and addresses, together with numbers of shares owned, of all the shareholders. Such a tome assuredly is a Bible not only for the analysts but for the customers' men and those making book for these stocks on the Bourse. Perhaps such full disclosure is one reason why Holland, despite the loss of its gem in the East Indies, is such a thriving, energetic and forward-moving free enterprise country today.

THE GERMAN BOURSE

Germany is once again beginning to attract funds. In Frankfurt-am-Main, the financial center of Western Germany (which on Saturday night seems more overrun with GI's than Broadway during the war years), the German Bourse has boomed in the past year or so, with fantastic profits for those brave enough to follow the investing formula of peace in our time. Everywhere there appears the belief that Europe has entered a breathing spell, "detente" is the word for it. Businessmen are acting quickly to reap a harvest.

SWISS METHODS

In Switzerland, site of the "summit" conference, we had the impression much of the analyzing in the great international banks and insurance companies and century-old brokerage firms was done at the "summit" or near to. It may be that the clarity of the Swiss air or the beauty of the surrounding Alps or the objectivity of a neutral country in mid-Europe enhances intuition and fortifies judgment. The Swiss have been farsighted and astute, and most successful. When analysts as a group are needed in Switzerland, no doubt they will spring into existence, but they will probably creep before they walk, and walk before they run, and we saw little evidence of such goings-on either in Geneva or Zurich at the present time.

AMERICA'S PLACE

Yes, Europe is a great place, and, as one of the wise Swiss bankers said: "If the free world is going to survive, America above all must survive." Europeans are still buyers of American shares.

Proud though we are of analysts and all they have accomplished in America (our accounts of the historic 1952 San Francisco trip, the Analysts Journal, the parade of corporation presidents before our Societies, etc., made the

European analysts' mouths water), we could but feel humble at the same time before the great diversity of knowledge of analysts abroad. They are well informed concerning our corporations, conversant with questions concerning Standard Oil of New Jersey, Royal Dutch, Imperial Chemicals, Esso Standard, Imperial Oil—it is almost "you name it." And behind knowledge of securities and capitalizations goes a learned understanding of international affairs and currencies, as well as domestic politics and personalities. Given a world at peace and with exchange restrictions let down, there will be an international system of free enterprise at its best. A free flow of capital to those parts of the world where it may be most gainfully employed, to the benefit of he who works, he who manages, he who owns, and he who buys the product.

America, in her new position as world's banker, has a role to play in this coming era of international lending and investment. Europe, too, has its role to play, her position secure in tradition and knowledge. Together the New and Old Worlds can work to give the second half of the 20th Century a standard of living and civilization not vouchsafed to princes in the past. It has been wisely remarked that the second half of centuries are better than the first. May it be so. Think it over!

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Review of Domestic Airline Industry

JOHN H. LEWIS

THE PHENOMENAL GROWTH of the airline industry's traffic and gross revenues can be measured in many ways. We have selected a few leading indicators, each of which tells the story of growth in its own way. At the same time we include in Table I comparative traffic figures, which show how much of the transportation business has been captured by the airlines.

Within the airline industry there has been in recent years an important new development. Gradually coach flights—hardly known as recently as 1947—have become an important factor. By 1953 they accounted for 25% of the business, and this year they may exceed the 38% level. Typically of this fast moving and rapidly developing industry, we can already see on the horizon other new developments. Helicopters are already in service on a limited scale both in the United States and Europe, while the latest newcomer, the convertiplane, is just emerging from the testing stage. While the helicopter and convertiplane will probably serve a yet hardly tapped market, the new jet planes, entering public service in two to three years, will introduce a speed, size and utilization hitherto unknown in air transportation.

The most amazing aspect of these figures is the fact that the airlines have risen to such prominence within the last ten years, and this in face of an over-all decline in traffic of 35%.

Practically all airline companies had their small beginnings in the '20s or '30s. Gradually companies were merged into larger companies, enabling the industry as a whole to utilize larger equipment, longer hauls, and offset seasonal fluctuation due to limited route structures. Although there are now some exceptions to this rule, the tendency to seek new routes or to merge and consolidate into balanced and larger units still continues.

In Table II we present some indicators of the operating results of the domestic trunklines.

An interesting feature of these figures is that the importance of revenues derived from mail since 1948 has almost continuously declined, both absolutely and relatively, thus indicating the ever-increasing independence of the airlines from Federal subsidy. Another feature is that net profits and investment have gradually increased, although the ratio has oscillated. This latter factor is mainly due to the equipment expansion policies of the airlines.

With the years, the equipment used has gradually become larger, heavier, faster and more reliable. But, on the other hand, each new type tends to be more expensive and requires a larger initial investment. Although most airlines were able to register capital gains on the sale of obsolete equipment, these are usually not too important when compared to the additional costs of the new models. This in turn has led the airlines to search for planes which would be cheaper to operate. Some believe that the turboprop and jet planes will be considerably more economical to operate and in this way compensate for the heavier capital outlay.

A recent estimate by an official British spokesman gives some indication as to the coming needs. Although these estimates include planes for other than United States domestic companies, they exhibit the magnitude of the needs. During the period 1958–1966, he estimates that the world would need 2,700 new aircraft and helicopters, costing over $7 billion. These planes would include 300 jet transports, 1,300 large turbo-props, 600 small turbo-props, and 500 multi-engine helicopters. This investment is several times the current amount invested in such, or similar, planes.

In order to meet the constant demand for bigger and better equipment, the airlines pursue an accelerated depreciation policy. Table III shows how large these depreciation allowances have become for three leading domestic airlines.

The odds are that the estimates for the coming years are

Table I

						Billions of Revenue Passenger Miles						
	Route Miles Operated (000)	*Planes in Service*	*Available Seat Miles (billions)*	*Average Trip per Passenger (miles)*	*Revenue Ton Miles (millions)*	*Airline*	*Bus*	*R. R. Coach*	*R. R. First Class*	*Total Airline Bus & R. R.*	*Airline % of Total*	*Airline as Percent of Airline & First Class R. R.*
1946	54	674	7.5	497	655	5.95	25.7	39.1	19.8	90.55	7	23
1947	62	810	9.2	490	693	6.10	23.4	27.7	12.3	69.50	9	33
1948	69	878	10.0	474	717	6.00	22.0	24.5	11.0	63.50	9	35
1949	73	919	11.1	464	821	6.75	21.3	20.1	9.5	57.66	12	42
1950	77	960	12.3	484	976	7.96	19.6	17.4	9.3	54.30	15	46
1951	79	981	14.7	495	1,233	10.51	21.2	19.0	10.2	60.90	17	51
1952	78	1,078	18.1	533	1,404	12.10	20.7	19.8	9.5	62.10	19	56
1953	78	1,139	22.1	547	1,644	14.30	19.7	19.0	8.0	61.00	24	64
1954	77	1,135	25.6	N.A.	1,856	16.23	18.1	17.5	6.8	58.60	28	70

Table II
Operating Results of Domestic Trunk Lines
(000 Omitted)

	Total Oper. Revenue Excluding Mail	*Total Oper. Expense*	*Profits or Loss Before Mail Service*	*Mail Revenue*	*Net Profit After Taxes*	*Net Investment*	*Ratio Profit to Investment*
1938	$ 27,047	$ 43,861	$(16,814)	$15,798	$(1,016)	$ 26,378	
1939	37,465	51,392	(13,927)	18,482	3,862	31,536	11.7%
1940	56,774	70,897	(14,123)	20,090	4,655	45,237	10.3
1941	74,615	89,919	(15,304)	22,696	5,101	58,115	8.8
1942	84,701	81,604	3,097	23,447	14,626	69,515	21.0
1943	98,675	95,348	3,327	24,694	13,654	85,388	16.0
1944	127,438	124,349	3,089	33,308	18,781	117,249	15.9
1945	181,050	180,626	424	33,693	17,041	143,057	11.9
1946	291,619	317,121	(25,502)	19,880	(5,627)	229,273	...
1947	329,165	373,390	(44,225)	23,326	(20,242)	310,135	...
1948	365,515	411,278	(45,763)	47,838	(4,996)	368,459	...
1949	414,752	435,157	(20,405)	45,031	13,378	354,385	6.3
1950	477,798	461,538	16,260	46,311	30,879	368,504	7.9
1951	621,481	552,581	68,900	37,040	43,497	422,277	16.4
1952	732,105	672,700	60,000	35,910	53,534	535,940	11.1
1953	842,340	790,716	96,004	36,453	48,380	550,451	17.4
1954	942,720	871,760	102,172	37,450	49,000	624,245	16.3

( ) Indicates loss.

Table III

	1954							
	$ Millions		*Per Share*		*Estimated Depreciation Charges in $ Millions*			
	Deprec.	*Net Income*	*Earnings*	*Cash* Flow*	1955	1956	1957	1958
American	21.1	11.4	1.51	4.70	19.7	17.0	18.0	20.0
TWA	21.6	10.3	3.10	9.56	23.3	24.7	31.4	30.8
United	24.0	9.6	3.52	13.26	21.0	21.0	28.0	32.0

*Depreciation allowances plus net income.

underestimated, as all airlines have indicated that they will continue to modernize and enlarge their fleets. One can therefore expect that the current policy of very substantial allocations to depreciation accounts will be continued.

As a result of these depreciation policies, the real book value of the shares of all airlines has constantly risen. In Table IV we show this development for the four leading domestic airlines.

BOOK VALUE OF AIRLINES

It should be borne in mind that the book value represents only a part of the real value. For practically all airlines, the book value of the fleet is appreciably lower than its insurable or market value. In some cases this difference amounts to over 30%, and in others reaches over 50%.

In Table V we give the revenue of the domestic trunk airlines according to the source.

Two important facts emerge from these figures. The first is that passenger revenues account for close to 90% of total revenue. The second is that United States mail payments have decreased proportionately since 1948.

The major factors influencing revenues and net earnings are:

(a) Density of market served.
(b) The financial standing and growth of the area served.
(c) Amount of business and vacation traffic.
(d) Length of hauls.

As the large domestic trunk airlines enjoy the greatest combination of favorable factors, it is not surprising that they have fared better than the smaller lines. However, there are substantial differences between the trunk airlines. It seems that those which can generate a steady repeat-business do relatively better than the others. Some temporary gains were observed in airlines which were faster to expand the coach service. Thus, some of the airlines which were reluctant to embark on this type of service found that initially they lost ground. To some extent this may happen again should new types of service or planes be introduced. But, as most of the airlines are usually forced to adopt new equipment, methods, and policies, the greatest differentiation among airlines is in their route structures. All the leading airlines serve densely populated areas and have good, all-year-'round business from first-class traffic.

Table IV
Book Value Per Share

	1940*	1945	1950	1951	1952	1953	1954
American	1.67	4.36	4.70	5.62	6.82	8.21	9.68
Eastern	3.97	8.02	13.37	15.89	18.76	21.45	23.83
TWA	6.84	18.99	10.55	13.75	15.53	17.04	20.14
United	8.98	19.85	20.32	23.03	25.33	27.13	29.16

*Adjusted for present capitalization.

THE EARLY DEPENDENCE ON MAIL PAYMENTS

Mail payments constitute a unique feature in the financial picture of the airlines. Historically speaking, these mail payments may be said to have nursed the industry in its infancy. Without them, many an airline company could not have survived. Even to this day there are still four of the thirteen domestic trunk airlines which are dependent on subsidy mail payments for their profitability. Yet, it can be said that for most airlines, the mail payments no longer constitute an important gross revenue item. For all the domestic airlines combined, mail payments in 1954 amounted to only about 4% of total revenues. The strictly mail payment rates have tended to decrease with the years and only the increasing volume of mail carried kept the absolute dollar figures from declining in recent years. However, the importance of mail payments and particularly the associated concepts of the "fair return" (under the Civil Aeronautics Act of 1938) and its practical interpretation over the years, virtually assure the airlines an average, annual profitable return. This "cushion" is indeed a unique feature of this industry.

The earnings, dividend and price record of the four leading airlines can be seen in Table VI.

CAPITAL STRUCTURE

The over-all improved earnings have in turn led to a simplification and strengthening of the capital structure of the airlines. There is a discernible trend towards the elimination of senior stock in the capital structures. Yet the leverage feature of many airlines is still operative, as the airlines rely on bank loans for their financial needs. These loans are usually obtained at favorable rates, which attest to the confidence the banks have in the industry.

ROUTE CASES

We have indicated before that the route pattern is of prime importance to every airline. We propose to discuss below four rather typical route cases. The first one has just been decided by the CAB; in the second, the examiner

Table V
Revenue Sources and Percentages for Domestic Trunk Airlines
(All Dollar Amounts Stated in Millions)

Year	*Passenger Revenues*	*Percent of Total*	*U. S. Mail*	*Percent of Total*	*Express and Freight*	*Percent of Total*	*Total Operating Revenue*
1946	$272.6	87.39%	$20.3	6.50%	$13.3	4.26%	$311.9
1947	303.2	86.01	23.3	6.62	18.9	5.36	352.5
1948	334.7	80.98	47.8	11.57	23.8	5.76	413.4
1949	378.1	82.24	45.0	9.79	27.3	5.93	459.8
1950	430.1	82.06	46.3	8.84	34.3	6.54	524.1
1951	570.3	86.60	37.0	5.62	35.7	5.43	658.5
1952	671.3	87.40	35.9	4.68	41.4	5.39	768.0
1953	775.8	88.36	36.5	4.05	46.2	5.22	878.8
1954	870.0	89.00	37.5	3.83	47.9	4.90	980.2

Table VI

		Earnings	*Dividend*	*Price Range*	*Current Price*	*Price-Earnings Ratio Based on 1954 Earnings*	*Book Value*
American	1940	$0.47*	$0.10	7 – 4*			1.67*
	1954	1.51	0.60	21 – 12	24⅞	16.4	9.68
Eastern	1940	0.70*	. . .	11 – 6*			3.97*
	1954	2.88	0.50	40 – 22	52½	18.2	23.83
TWA	1940	d0.09*	. . .	20 – 9*			6.84*
	1954	3.10	. . .	31 – 13	29	9.3	20.14
United	1940	0.52	. . .	23 – 12			8.98
	1954	3.52	1.50	38 – 21	42	11.9	29.16

d Deficit. * Adjusted for subsequent splits.

has reported; certain parts of the third case have been settled in conjunction with the first case; while the fourth is still in the hearing stage. In each case, some airline is likely to gain while another may lose.

1. *New York-Chicago Service Case.* On September 5, 1955, the Civil Aeronautics Board settled this case. The major decisions are: Capital Airlines was authorized to give unrestricted service between New York and Chicago and several intermediate points. NWA was granted unrestricted flights to Detroit and permitted to add Chicago as an intermediate point on its flights to the Northwest. TWA was allowed to fly to Cleveland provided its flights start west of St. Louis. United was allowed, for the first time, to operate non-stop service between Chicago and the Northwest, thus making it competitive on this route. Also, minor extensions were granted to United and Eastern in the East. American (together with Eastern and TWA) gained permission to fly non-stop between New York and Louisville. However, on the whole, American will face greater competition as a result of these CAB decisions.

2. *Service to Denver Case.* The major issue in this case is whether two regional airlines, Western and Continental, will be allowed to extend their routes and thereby strengthen their position, or the major carriers, i.e., United, TWA and American, be allowed to enlarge their services. The CAB examiner's report favors the regional carriers, and particularly Continental, as it would probably free this airline from the heavy Government subsidy it now receives. If the examiner's suggestions are followed, Western will receive the Denver-Salt Lake City-Reno-San Francisco route, while Continental will be allowed to extend its current route between Denver and Kansas City in the West to Los Angeles, and in the East to Chicago, which, together with an equipment interchange agreement with Capital Airlines, will serve all the major Eastern cities.

Indirectly, Capital Airlines is expected to gain, while some United and TWA traffic may be diverted to Continental, although its effect on the over-all activities of United and TWA probably will be negligible.

3. *Additional Southwest to Northeast Service Case.* Certain parts of this rather complicated case have been decided by CAB in connection with the Chicago-New York case. Thus far, the major beneficiary seems to be Capital. However, it is expected that ultimately Delta and United are likely to gain, while American and TWA probably will face new competitors on some segments of their routes.

4. *New York-Florida Proceedings.* Different considerations are involved in this case. Northeast Airlines suffers from an unbalanced route structure. Consequently, it loses in the winter, while its earnings in the summer are impresssive. But the over-all results have been poor, and the Government is in fact heavily subsidizing this airline. National and Eastern oppose NEA requests to extend its route to Florida in order to improve its pattern. National, which evidently would be more affected, has offered to purchase NEA, but it is not as yet clear if the offer will be accepted. In view of the current philosophy of CAB, the odds are in favor of NEA receiving the Florida extension, as it probably would make NEA a subsidy-free airline.

In the following graph we have drawn on a semi-logarithmic paper the Dow Jones average prices of industrial stocks and the Lewis Indices for airline stocks. The price movement is drawn on semi-logarithmic paper in order to facilitate an easy comparison of the different rates of growth in the two series.

It will be seen that the airline stocks did not always parallel the general trend. From the low point (April 28, 1942) of the Dow Jones average to August 25, 1955, that average rose 407% for the period, while the Lewis Index of Airline Stocks went up 377%. If the individual stocks of the airlines were drawn, marked differences would emerge. The proper selection of individual stocks is, therefore, of prime importance.

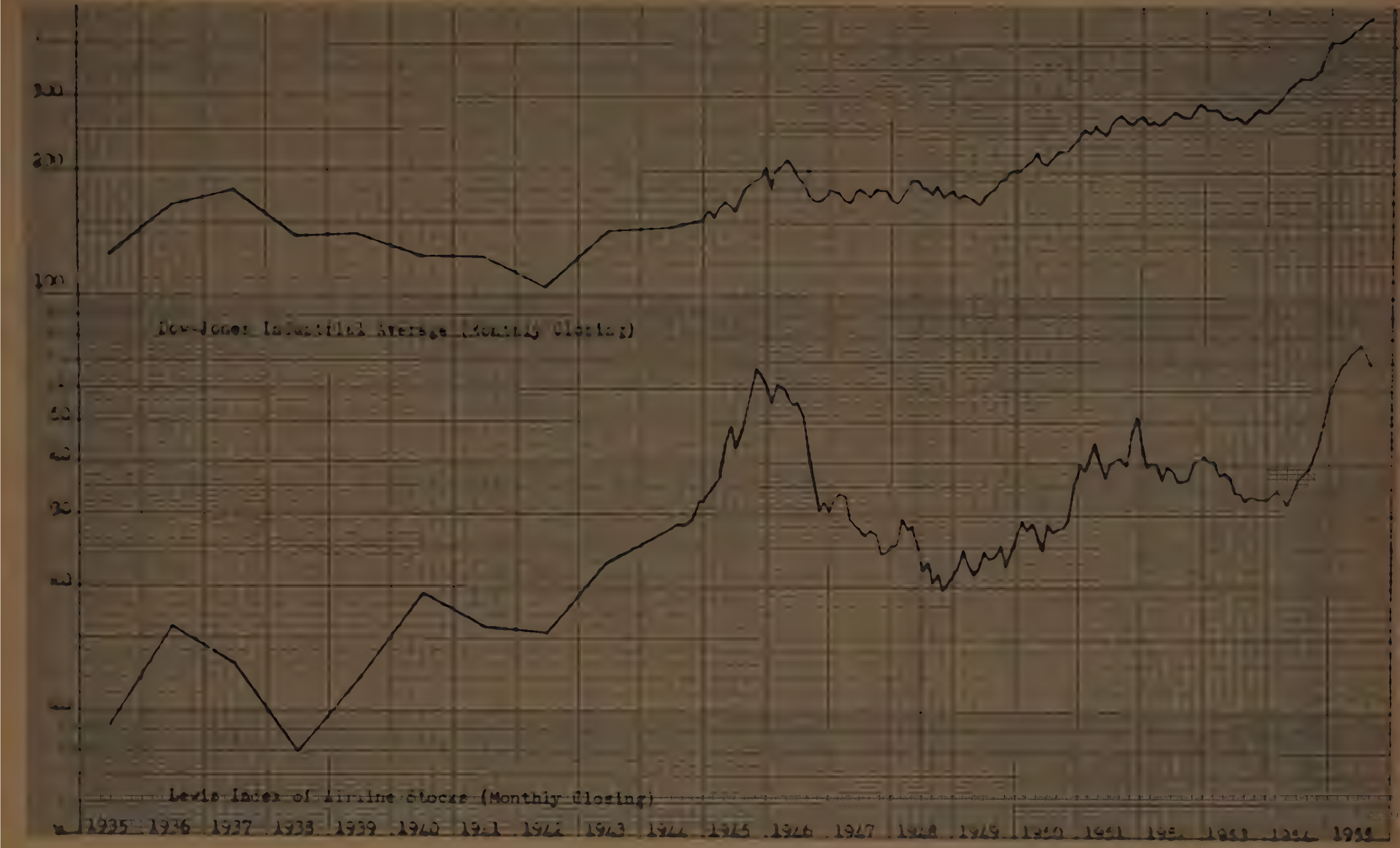
Estimated common share earnings for the calendar year 1955 and actual results for 1954 fiscal years are given below. The 1955 estimates include only operating profits, except for Capital.

The Civil Aeronautics Administration issued a staff study

	Estimated 1955 per Share			*Actual 1954 per Share*		
	From Operations	*From Capital Gains*	*Total*	*From Operations*	*From Capital Gains*	*Total*
American	$2.10*		$2.10*	$1.51	$0.46	$1.97
Braniff	1.50		1.50	1.45	1.36	2.81
Capital	0.92(d)	$5.50	4.52	1.55	0.55	2.10
Continental	1.25		1.25	1.32	. . .	1.32
Delta	3.75		3.75	0.47	1.71	2.18(a)
Eastern	4.75		4.75	2.81	0.07	2.88
National	3.00		3.00	1.38	3.04	4.42(a)
Northwest	2.00*		2.00*	2.12	0.26	2.38
Northeast	0.03		0.03	0.11	. . .	0.11
TWA	2.00		2.00	3.10	. . .	3.10
United	3.50*		3.50*	3.52	. . .	3.52
Western	2.75		2.75	1.52	0.52	2.04
Pan American	1.75		1.75	1.36	0.35	1.71

*Assuming all preferred stock converted.

(a) Fiscal year ending June 30, 1954.
(d) Deficit.



Dow Jones Average Prices of Industrial Stocks and the Lewis Indices for Airline Stocks last month in which it forecasted what growth might be expected in the aviation industry during the next decade. As for the airlines, it is predicted that they would be carrying more than twice as many passengers and three times as much freight ten years hence. The study suggests that their future passenger traffic estimates may be too low if helicopters develop the short-haul market effectively. Airlines will account for 50% of the market now served by air transports, trains and buses by 1965, compared with their present percentage of about 29. The United States airlines may be carrying 6,000,000 travelers overseas in 1965, against 2,400,000 in 1954. Our own judgment would be that the above estimates are conservative, especially the freight projection.

CONCLUSION

We have seen that the air transportation industry is in the midst of a rapid growth period. Passenger traffic on the airlines this year may gain 17% over 1954. Trafficwise the industry is nowhere near saturation. Its share of the total public transportation business is growing every year. The profitability of the airlines' operation is increasing in spite of a declining rate structure, mainly due to the stimulation of demand through lower rates, to better equipment, greater operational economies and, on the average, longer hauls. Greater utilization of planes has resulted in higher revenues for the airlines in relation to invested capital, as compared with the railroads, for example. Owing to accelerated depreciation policies and reliance on bank loans for financing, the common shares of practically all airlines have not been diluted (except for some conversion of senior securities) and their balance sheet book values are usually much understated. Higher earnings generally have resulted in increased dividends. The airlines have a great growth potential, which, in both the freight and passenger transportation fields, aided by more economical planes ahead, should produce steadily increasing earnings over the years.

* * *

IDEAS—OLD AND NEW

"There is that scattereth and yet increaseth; and there is that withholdeth more than is meet, but it tendeth to poverty."—*Proverbs of King Solomon.*

"This condition of affairs, this inequality between production and consumption, between supply and demand, may properly be called either 'over-production' or 'underconsumption'."—*Uriel H. Crocker,* 1895.

"Men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income."
—*J. M. Keynes,* 1936

"Savings for the purpose of securing income-producing investments (which the economists recognize as the best object of saving) may be carried to such an extent as to overfill the possible limits of the field of profitable investments, and thus bring, instead of benefit to mankind, only the enforced idleness, the miseries, and the want of a period of business depression."—*Uriel H. Crocker,* 1895.

"The saving has resulted in nothing whatever except a change and a change-about between those who consume and between those who own titles to wealth."
—*J. M. Keynes,* 1930

"All the savings of the generations of the past has been a profitless loss of comfort."
—*Uriel H. Crocker,* 1884

"Thus we may define 'unproductive consumption' as consumption which could be foregone by the consumer without reacting on the amount of his productive effort."
—*J. M. Keynes,* 1930

"It is very evident that productive consumption is now and for some considerable time has been quite unprofitable."—*Uriel Crocker,* 1884.

"Investment, which requires redistribution of current consumption but no reduction in its aggregate, may be said to substitute productive consumption for productive production."—*J. M. Keynes,* 1930.

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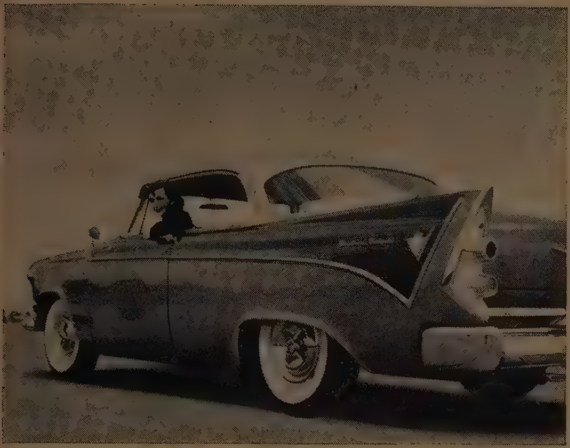

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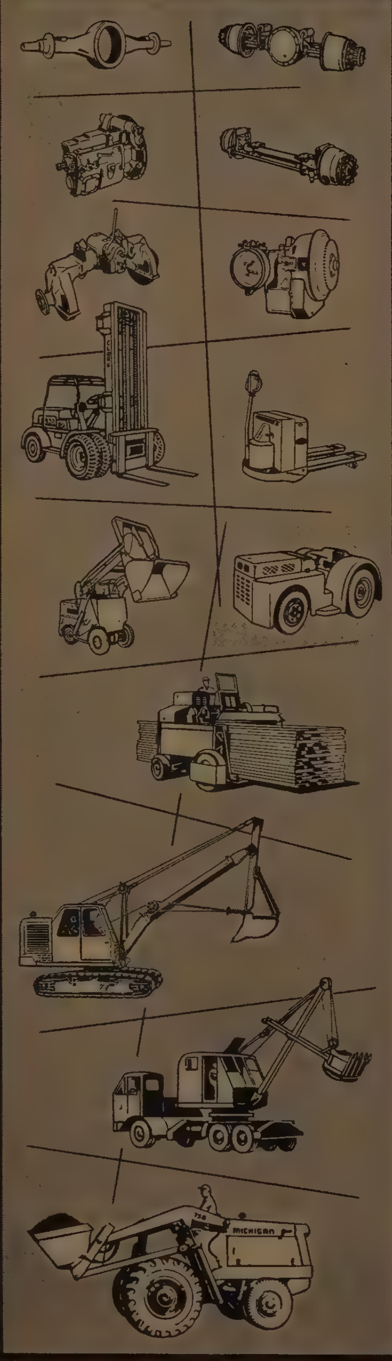

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The Outlook for Uranium

NICHOLAS E. CRANE

A NUMBER OF RECENT DEVELOPMENTS have created in the minds of investors considerable uncertainty over the outlook for uranium and with good reason. At the Geneva Conference it was indicated quite clearly that uranium no longer held an "exclusive" as the fuel for creating atomic energy and that competing fuels possibly of much greater potency were available. While the long term outlook for uranium may be satisfactory the short term presents a number of uncertainties, for the supply of uranium appears to be more than adequate for indicated needs for at least a decade. The discussion of the possible changes in Canadian purchase contracts added to the confusion and twelve leading Canadian uranium issues lost more than $130 million of value according to the Financial Post of Toronto.

Investors recall too well many abortive moves in the past in glamor industries. In the post-war period the airlines, the South African golds, the Canadian oils all had vigorous moves on special news — or hopes. Years later, when earnings began to justify some of the earlier optimism, the shares finally settled considerably below the peak prices which were established in the enchanted period.

In an attempt to place the subject in proper prespective one should appraise the principal factors involved (1) indicated demand, (2) supply, and (3) competitive fuels.

INDICATED DEMAND

When one sifts through the reports of plans for use of atomic power reactors it is evident that there is world-wide need for the power that might be provided by such units. The United States and Great Britain have programs which call for substantial amounts of uranium and only in the United Kingdom has large scale plans for generation of power from such units actually been resolved on a long range basis. In the United Kingdom sixteen such units are planned. One 50,000 kw plant to be completed late 1956, three more by 1960 and twelve additional plants by 1965. In all it is estimated about 2 million kw will be generated (about 10% of Britain's current output) and will offset the equivalent of 5 million tons of coal per year.

In the United States the principal demand for uranium comes from the military for the production of atomic bombs. This item is naturally under security "wraps" and no figures of "takings" by the Government are available. No figures are given now on the production of atomic bombs. A number of atomic energy power plants are planned (not all of which will require uranium as principal fuel). It is safe to assume a number of atomic submarines will be built as will other nuclear vessels, carriers and cruisers.

Principal plans for producing commercial power plant reactors in the United States using uranium as a fuel are not shown to be on the scale planned in Britain. There are reasons for what seemingly is a reluctance in the United States to plunge headlong into mass production of such reactors. Our supplies of coal, oil, natural gas and hydro power are still so plentiful that industry sees no urgent need to spend huge sums on experiments when there is considerable uncertainty about which means may eventually be the most efficient. Canada is in somewhat the same position as to availability of other low cost fuels.

In England on the other hand coal is becoming increasingly costly both in the mining and finding of new sources. Coal costs in Britain have risen 30% over the past 20 years in relation to other commodities.

Nations of the world are not ignoring the atomic age. Belgium, Italy, France, Holland, Norway, Sweden and Switzerland all have research reactors operating or units in process of construction. Denmark and Germany indicated plans to build reactors. However in none of these countries have there been indications of intentions to build major units to supply commercial power.

The really underdeveloped nations of the world where such power would seem in urgent need either do not have sufficient funds or industry to warrant the necessarily large capital outlays. Thorium may be the answer for such countries as India, Malaya, Brazil and others.

In substance it is generally agreed that large scale demand for uranium in the production of commercial power through atomic reactors is a minimum of 10 to possibly 20 years away.

With commercial use so far distant it would seem that the military are likely to be the major buyer of uranium over the next decade. Two recent comments by men in important positions in atomic energy proved disturbing to investors in uranium shares. Admiral Lewis Strauss, leader of the United States Delegation at the Geneva Conference and chairman of the United States Atomic Energy Commission, stated: "If the military demand were eliminated we would have a lot more uranium available than we could consume at the present time." Gordon Dean commented that when the current investment program in the United States is completed, the United States "will have atomic bomb material running out of its ears."

To supply the British atomic power plants it was estimated that about 500 tons of natural uranium would be required by 1965. Even this modest figure could be considerably reduced, according to Sir John Cockcroft, who is Admiral Strauss' British counterpart in that country's Atomic Energy Project at Harwell. He pointed out that possible repeated reprocessing of the uranium and plutonium left over from the first use of the natural uranium fuel might result in a ten-fold increase in the heat extraction per ton of uranium. In other words, 50 tons of uranium might suffice for this program rather than the 500 now contemplated. "Breeder" reactors which we will discuss later might reduce this requirement even more sharply according to Sir John.

SUPPLY

The head of the AEC raw materials division, Jesse Johnson, gave an estimate of uranium reserves in the Western Hemisphere of one to two million tons, that could be produced at a moderate cost, less than $12 a pound. Considerably higher reserves are believed available at higher cost figure. He likewise asserted that the present high production rate cannot be maintained unless there is a military demand or the material is stockpiled. It was generally agreed at the Geneva Conference that, while use of nuclear power probably would show rapid expansion once industrial application was proven economical, it appeared unlikely that such large scale development would take place before 1970 or even 1980. Present atomic power reactors currently in use are sometimes termed "Model T" units and it is expected that with time technical progress will sharply increase power derived and require lesser amounts of fuel.

Using Sir John's figure (for breeders) 200–300 tons of ore could conceivably satisfy world demand by the year 2000.

Production of uranium ores in the United States alone in 1954 was estimated to have been about 1½ million tons of ore or about 1,500 tons of natural uranium. In addition Canada is believed to be processing only 2 million tons of ore yearly. Thus it seems clear that there is no likelihood of a shortage of the ore in the foreseeable future.

Uranium in its natural form is .7% U 235 and 99.3% U 238. Separation of minute amounts of U 235 from U 238 into plutonium in a reactor before it becomes a suitable fuel is extremely complex and a costly procedure. A "breeder" reactor, in theory at least, would be able to use uranium as it is found in nature as a fuel in the creation of energy. Through an enormously complex process a larger amount of new fuel would be produced as a byproduct than was originally burned. We stress that while this is a theoretical possibility no practical "breeder" has been developed. However considering the enormous savings that would be derived it may be expected that every effort will be made to develop such a reactor. Successful development of an economically practical breeder reactor is something to which investors in uranium mining shares ought to give serious attention.

Although Thorium has been discussed as a potential competitor to uranium for some time, the recent Geneva Conference gave added impetus to this thought. Thorium is probably five times as abundant as uranium. In addition it was mentioned in an AEC announcement that a thorium reactor is able to breed more fuel than is burned. Thorium is believed to be the only element that can be used in large scale breeder reactors. To achieve this the "breeder reactor" regenerates its fuel through neutrons liberated from the nuclei of the atoms of nuclear fuel. A neutron entering the nucleus of an atom of thorium converts thorium into fissionable U 233. The availability of thorium on a world-wide basis particularly in a number of underdeveloped lands such as India, Brazil, Indonesia, Malaya, and Ceylon make it a logical fuel for the atomic energy programs of those countries. India has already stated its atomic energy program will be based on the use of thorium reactors. Consolidated Edison announced plans for an atomic reactor at Peekskill, New York, which will require initially 21 tons of thorium and ten tons annually thereafter.

Uranium, plutonium and thorium as atomic energy fuels are all fissionable elements. Fission briefly is the atom splitting reaction by which a "heavy" element (uranium) is bombarded with neutrons and splits into two lighter elements accompanied by the release of energy and additional neutrons. The released neutrons split other uranium atoms in a chain reaction. Lithium, however, creates its energy in a "fusion" (themonuclear) process (the opposite of fission) by joining atomic nuclei such as hydrogen or lithium into a heavier element. The "H" bomb is based on this principle.

The big problem, heretofore, has been the need to build up a tremendous heat about equal to that of the sun. Mr. Robert Colton, manager of National Securities and Research Atomic and Electronics Division, recently pointed out that this temperature may be achieved by "focussing the beam from a particle accelerator on a tiny area of the fusionable material. A relatively low power pulse type accelerator probably can provide sufficient peak power to trigger the nuclear fusion reaction."

There are several advantages in the creation of energy by controlled thermonuclear action: First lithium deuteride used in "fusion" process creates forty times the power generated from uranium. Second, the danger of atomic "fall out" would not be a problem since no destructive rays are released. This last fact is extremely important. The atomic energy law provides that the United States Government has no insurance liability to an organization owning a reactor. Insurance companies in the United States have steered away from insuring organizations owning such equipment as the damage claims from a radiation "fall out" over a populated area are too staggering to contemplate by the insurors. Since controlled "fusion" reactors would not have this hazard we may see greater stress laid on fusion rather than fission to the creation of energy.

SUMMATION

While uranium still has long term practical use and demand, the supply of the element appears more than adequate for at least a decade ahead. Competitive fuels thorium and lithium offer certain advantages which modify considerably the apparent monopoly enjoyed by uranium as recently as a year ago. Although uranium mining shares both in the United States and Canada are about one-third below their peak prices of this year it would appear that these shares as a group are relatively unattractive even at current levels. It will be some time, perhaps years before current levels can be justified on a reasonable times earnings or yield basis and any reasonable multiple for growth or "romance."

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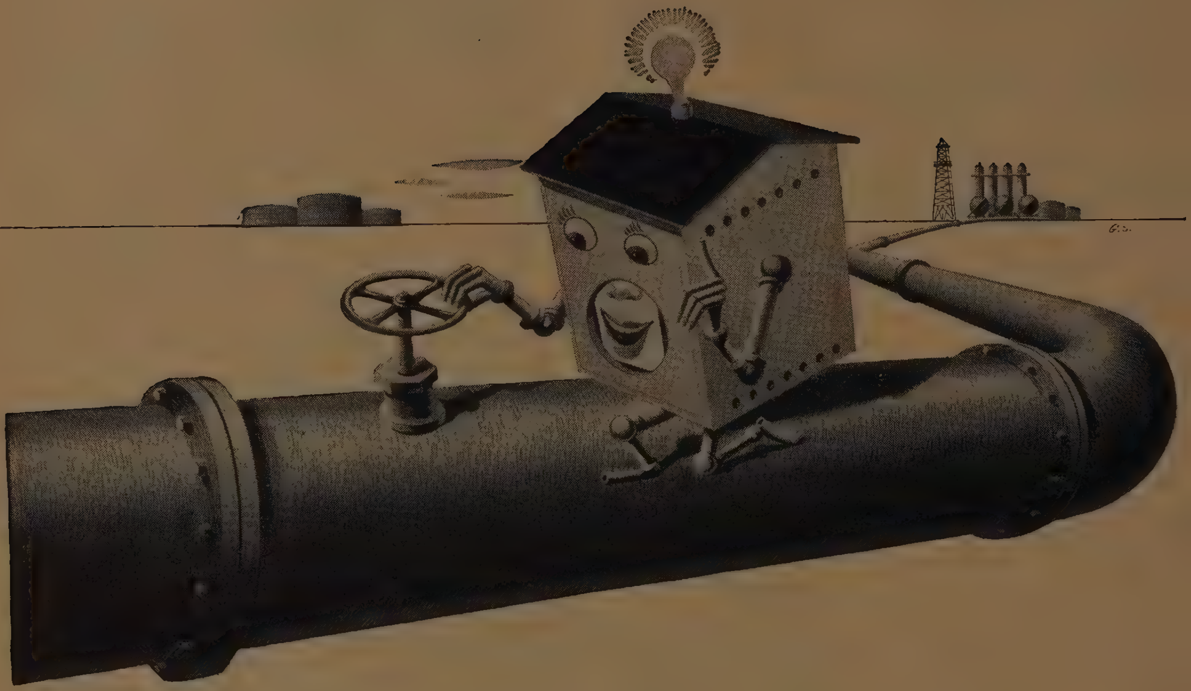

A pipeliner's "pipe dream" comes true!

The Capacitance Recorder is a new instrument developed recently at Gulf's research laboratories at Harmarville, Pa.

You might consider it as a sort of "private eye" that enables pipeliners to "look into" a line and see what is passing through at any given time.

The Recorder consists primarily of a probe and a recording instrument. The probe is inserted into the line which may be carrying on the same day batches of kerosene, fuel oil, and several different grades of gasoline. These liquids each have definite electrical properties. Variations in the electrical properties, passing between two electrodes in the probe, appear as variations on a chart in the Recorder. Thus, an operator, by reading the chart, can tell at any time precisely what is flowing through the line.

There are many other functions of the Recorder, but the point we wish to make is simply that this is another example of how Gulf, and the entire oil industry, is continually developing new techniques so that it can do a better job for the public.

GULF

GULF OIL CORPORATION • GULF REFINING COMPANY

GENERAL OFFICES, PITTSBURGH, PA.

Oil Well Drilling—A Security Analyst's Approach

G. HOWARD CONKLIN

IT IS GENERALLY KNOWN that a wealthy individual who invests a substantial part of his taxable income in the drilling of oil wells can obtain extremely large tax advantages. The present law may be briefly summarized as follows:

1. 100% of the costs of drilling a dry hole can be deducted from one's income (regardless of the sources of that income) during the calendar year the drilling takes place.
2. Approximately 60% of the total costs of drilling and completing a producing well may be similarly deducted.
3. 27½% of all income from oil and/or gas wells is considered as statutory depletion and is tax-free income.

Congress has passed the above legislation, which gives unusual tax benefits as an incentive to those companies or individuals who engage in oil well drilling, because of the vital importance to the nation of having its oil resources developed.

PERMISSIBLE UNDER THE LAW

The use of oil well drilling as a tool for the purpose of converting otherwise taxable income into underground oil and gas reserves is permissible under existing laws and is currently being used by many hundreds of individuals in the high income tax brackets. For a person who has spent his life in the oil business, this practice has become almost automatic. To the average investor it presents a mystery. How can a security analyst explain and render intelligible such measures? How can the analyst aid his clients in this very specialized industry? It may be difficult, but the results will bring satisfactions.

Someone may ask, "Why should one try to advise clients on oil well drilling? Why should he not stick to stocks and bonds, the things of which he knows most?"

There is logic in having the security analyst "stick to his knitting." On the other hand, when an analyst sees large stock accounts being penalized by 80 to 87% income tax rates, or when he sees a good client suffering from the devastating forces of inflation because he has taken refuge from high income tax rates by concentrating in tax free municipal bonds, can he stand idly by and do nothing? If he knows that a large part of such a fund might be invested profitably in dynamic growth common stocks and that the dividends, which would otherwise be taxed at extremely high rates, can be converted into valuable underground oil and gas reserves, will his conscience let him take a "do nothing" attitude? Who else is there to advise most investing individuals excepting the security analyst in whom they have developed confidence and trust?

MINIMUM STANDARDS

There are a few general rules which can be applied by a security analyst to his clients' oil well drilling problems. Although there are exceptions to these rules, they may be considered as minimum standards for the neophyte who is taking his initial steps in the oil business.

1. Only those individuals who have annual taxable incomes of $100,000 or more should consider oil well drilling as a tool for getting greater performance out of their investment portfolios.
2. These people, in any one year, should limit their oil well drilling ventures to only that portion of their taxable incomes which is above the 50% bracket. This means that capital assets are not to be invested in oil well drilling. It also means that all capital gains which are primarily in the 25% tax bracket are not to be invested in oil well drilling.
3. Oil well drilling should be done only on a cooperative or partnership basis with a group of individuals. By pooling their funds they can spread their risks.

The writer, during the past 12 months, has interviewed 18 different oil well drilling operators, has studied the

Calendar Year 1954

	TOTAL NUMBER OF WELLS				DEVELOPMENT WELLS				EXPLORATION WELLS				
Company	Drilled	Producers	Dry Holes	% Producers	Drilled	Producers	Dry	% Producers	Drilled	Producers	Dry	% Producers	% Wildcats Drilled
Cities Service	424	350	74	82.55	346	324	22	93.64	78	26	52	33.34	36.79
Houston Oil	132	105	27	79.54	107	99	8	92.52	25	6	19	24.00	18.94
Ohio Oil	702	552	150	78.63	579	539	40	93.09	123	13	110	10.57	17.52
Phillips Petroleum	406	349	57	85.96	363	336	27	92.56	43	13	30	30.23	10.59
Pure Oil	279	230	49	82.43	249	223	26	89.56	30	7	23	23.33	10.75
Shell Oil Co.	996	771	225	77.40	785	720	65	91.72	211	51	160	24.17	21.18
Sinclair Oil	527	444	83	84.25	463	427	36	92.24	64	17	47	26.56	12.14
Skelly Oil	385	318	67	82.60	339	302	37	89.08	46	16	30	34.78	11.95
Socony-Mobile	848	707	141	83.37	763	682	81	89.38	85	25	60	29.41	10.02
Texas Pacific Coal & Oil	106	78	28	73.58	81	74	7	91.36	25	4	21	16.00	23.58
	4,805	3,904	901	81.25%	4,075	3,726	349	91.44%	730	178	552	24.38%	15.19%

many types of deals being offered, has compared their relative performances, and has checked their reputations and records with the oil departments of three large New York City banks. This is applying typical security analysis techniques to a new problem. Any analyst who handles large individual accounts which need tax relief would naturally do the same thing.

It was found that large and small participations in millions of dollars of oil well drilling deals are continually being offered by banks, investment banks, large and small drilling companies, and by various indviduals who spend all or part of their time handling oil well drilling deals. The oil department of almost any of the big banks can put one in touch with several ventures.

OPPORTUNITIES AVAILABLE

There are all kinds of opportunities available. For some reason not completely self evident, the majority of deals start out with straight wildcatting. This is the riskiest part of the oil business, but it also offers the greatest profit potential. The long term national average for all of the new field wildcatting done in the United States by big oil companies, small oil companies and independent operators combined is *one* producing well for each *eight* dry holes. In contrast, three out of every four development or offset wells drilled have proven to be producers. Ordinary prudence should make the analyst shy away from too much wildcatting.

With respect to wildcatting, one asks, How do the big oil companies handle this vitally important but high risk type of operation? The accompanying table shows how ten representative oil companies divided their efforts in 1954 between development wells and wildcats.

In 1954 the 10 companies included in the accompanying table drilled only 730 wildcat locations out of 4,805 total locations, or only 15.19% of their combined drilling was in this category. Of these 730 wildcats, only 178, or 24.38%, proved to be producers. In contrast, of the 4,075 development wells drilled, 3,726, or 91.44%, proved to be producing wells. If the more important oil companies are so careful to limit their wildcat operations, it seems obvious that an individual should endeavor to select an oil operator who likewise keeps his rank wildcats to a reasonable percentage.

There is a tendency among operators to have a slight disdain for the money they are spending, frequently referring to it as "only tax money." Any security analyst knows that a dollar is a dollar, and that, regardless of its source, each one should be invested wisely. Consequently, one must look for an oil operator who appreciates the value of money. Strange as it may seem to us in the security analyst profession, one may have to reject several otherwise acceptable operators because of their careless attitude towards money.

A security analyst is accustomed to screening a large number of securities and detecting the most attractive. He is also trained to diversify his client's funds among a sizable group of companies in numerous industries, with assets spread over a wide geographic area. It is possible to find oil operators who have trained geologists spotted in key locations in various counties and states. The geologist's job is to find deals to present to the operator. The operator screens them carefully and selects only the most promising. With such a large number of business transactions from which to choose, it is possible to get diversification as to so many wildcats per year, so many field extensions per year, so many flank wells per year, etc., in various geographical areas.

MAJOR PORTION COMPLETED

Once such an operator has been found, and his record and reputation are approved by two or more banks, the major portion of the security analyst's search has been completed. From then on, so long as the operator continues as he has in the past, the analyst can recommend him to any or all of his clients.

At the present time, when large investors are faced with very high tax rates, combined with a steadily depreciating currency, it is necessary that security analysts learn to use effectively every tool which can be morally and legally justified to aid their clients in the protection and growth of their assets.

MINNEAPOLIS GAS COMPANY

739 Marquette Avenue
Minneapolis 2, Minnesota

Common Stock Dividend

The Board of Directors of Minneapolis Gas Company, at a meeting held on October 7, 1955, declared a dividend of 31¼ cents per share payable in cash on November 10, 1955, to common stockholders of record as of the close of business October 26, 1955.

H. K. WRENCH, *President*

Interchemical
CORPORATION

DIVIDEND NOTICE

Interchemical has declared—

- The regular quarterly dividend of $1.12½ a share on its Preferred Shares.
- A dividend of 65¢ a share on its Common Shares.

payable November 1, 1955, to holders of record at the close of business on October 18, 1955.

FRANCIS A. E. SPITZER, Secretary

CONSOLIDATED NATURAL GAS COMPANY

30 Rockefeller Plaza
New York 20, N. Y.

DIVIDEND No. 31

THE BOARD OF DIRECTORS has this day declared a regular quarterly cash dividend of Thirty-Seven and One-Half Cents (37½¢) per share on the capital stock of the Company, payable on November 15, 1955 to stockholders of record at the close of business October 17, 1955.

R. E. PALMER, *Secretary*

September 22, 1955

MARQUETTE Cement

ONE OF AMERICA'S MAJOR CEMENT PRODUCERS

While Marquette's the parent company, five sales subsidiaries lend their names to much of its volume.

In the middle west you'll find Marquette and Hawkeye cement . . . over Ohio-West Virginia way Superior is the familiar cement name . . . down around Georgia it's Southern States cement . . . and you'll see Cumberland or Hermitage cement on building sites throughout the mid-south region.

They're *all* names to know and remember, representing most of the sales of Marquette's cement producing plants that serve the construction industry in 18 states.

ANNUAL CAPACITY 13,600,000 barrels
—and some 3,000,000 additional barrels on the way

Operating eight cement producing plants in Illinois, Iowa, Ohio, Missouri, Tennessee, Mississippi and Georgia

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What's in a tree?

A tree is a home for many surprising things—as Research each year is revealing.

All over America, pulp and paper companies are pioneering an exciting search within the tree—not only for new uses of its cellulose, but for hidden promise in its lignin, bark, oils, and other organic components.

Our ultimate goal is to attain *full utilization of our forest resources.*

The research we do, in seeking that goal, not only serves our fellow industries, but helps to keep us progressive, healthy, competitive and young.

Crown Zellerbach Corporation recently dedicated its new Research Laboratory at Camas, Washington.

CROWN ZELLERBACH

PAPER AND PAPER PRODUCTS SINCE 1870

San Francisco 19

Tomorrow's Investors

FREDERICK G. REUSS

A GOOD EDUCATOR CAN probably use anything as a key for opening windows to the world in the minds of his students. There is the story of the preacher who offered, on a bet (sit venia verbo), to give a sermon, unprepared, on any theme left for him in a sealed envelope on his pulpit. A practical joker took him up on it and put on his pulpit an envelope containing an empty slip of paper. The preacher opened it, looked at the paper, and began: "God has created the world from nothing. This will be the text of today's sermon."

For our sermons on modern society educators are not usually handed a mere slip of paper, much less a blank one, but the whole book is thrown at the hapless teacher. We usually show the student as many aspects of society as correspond to the number of academic specialties which inscrutable accident has created. And if, seeing the fault of our way, we scramble our fields for a "core" or something of the kind, the result is, as Justice Frankfurter once remarked, a surprising amount of academic cross-sterilization. The same process is repeating itself even within an academic specialty as anyone who has taught or has been taught an introductory course in Economics, for example, can testify. The liberal arts student who comes to a beginners' class in Economics will be informed of the working of any number of accidental economic institutions. He will arrive at some generalizations on economic behavior through a number of analytical tools which he will never use after the year is over. Most modern texts present both these approaches and some more simultaneously.

INFORMED GUESS IN THE STOCK MARKET

Why do not we use our knowledge of institutions and skill in analytic tools on something worthwhile, so that knowledge and tools are not just lying around inertly but are applied? Is there not something for which a knowledge of marginal analysis, of national income, accounting, or of the way in which a corporation makes decisions, significant? Certainly there is. It is significant for an informed guess of the future of our economy and of the enterprises working within it. Such an informed guess could work well in the stock market.

A discussion with the president of a college who is an educator and professional philosopher and thoroughly aware of educational problems, resulted in a contract between the college administration and the department of economics. According to this contract the beginners' class in Economics received a small four-digit sum for the purpose of investment, and, if income plus appreciation so warrant, a scholarship will be created with money in the fund exceeding the original amount.

After a brief period of discussing and evaluating the usual methods of economic analysis, using the usual textbooks and other materials, a class was organized into something similar to the board of an investment trust. Certain groups of industries, such as basic raw materials, retail, public utilities, were blocked out and groups of students selected one such group each. Within the group individual students selected individual companies. A term report was prepared, as the course advanced—the industrial part a cooperative effort of the group, and the specific industry investigated by an individual student. Required reading materials were corporation reports, analyses issued by brokerage firms, investors' handbooks and so forth, plus any other sources which seemed pertinent to the students, including interviews with corporation executives.

MEANING OF ANALYTIC TOOLS

The students were required to use the analytic tools they have come to understand. Generally these tools acquire real meaning in the process. For instance, students do not have to memorize a formula for elasticity of demand. They find that the formula for determining elasticity is the simplest way of measuring consumers' reaction to price changes. If the formula were not printed in the textbook the student probably would have to develop one. Is the firm overexpanded, too small, or has it found the best possible output considering its cost and market situation? If the textbook had not shown marginal analysis we should probably have to invent it ourselves. What is the competitive situation? How can we measure it? Would price identity do? Or high profits? Or the difference between marginal and total returns? Or output percentage within the industry? Or something else? One student, for example, made a very interesting analysis of differences between income elasticity and comparative buying. The conclusion reached was that one should not invest in any specific company unless its advertising behavior was good.

AN ACADEMIC CLASS AS TRUSTEES

Toward the end of the academic term the class, as trustees of the fund, voted to invest in common stock of one company each in oil production, chemicals, food processing, retailing, insurance, and a public utility. Although the experiment started during a time of rising stock values it is of interest to see that the stock selected rose by twice the rise of the Dow Jones average, and during a decline in the Dow Jones average it declined only by one third of the decline in the Dow Jones average.

The subsequent year's class took over the portfolio. Under pressure of the instructor, volunteers were found to study each of the companies in which investment had been made. An additional incentive for this selection was the possibility of representing the class in stockholders' meetings. The class made use of some puurchase rights and sold one position, replacing it for good reasons with another company of the same industry.

THE FIRST SCHOLARSHIP

Next year we expect the first scholarship to be granted with money exceeding the original investment, available from income and appreciation.

As time went on new viewpoints were developed, not originally in the plan and certainly not part of a beginners' text, but quite interesting. Pertinent facts which transcended the discipline of economics were no longer accepted by the class without testing. For instance: Will the increase of our population continue at present rates or was the change from the situation of the thirties only a temporary war-effect? Can we extrapolate sociological variables that simply? Or: How do psychology and politics influence the stock market, beyond, or combined with, economic factors? How about the various theories on "how to invest"? Should we aim at dollar averaging? How much diversification is meaningful? Does the stock market have a trend of its own which might differ from the general economic trend? At this point the instructor put a crystal ball on his desk for visual instruction.

But there is more to the experiment than just making financial analysis meaningful. There are, in fact, at least three more reasons for it. First, the student obtains what social scientists call the advantage of "participant observation." They study the financial system by taking part in it as owners and partners. Secondly, they see that our system is by no means stagnant, that there is constant development of new products, new markets, that existing concerns must be kept under observation since competition can reduce them, while new ones may come up, and that the net result of this kaleidoscope of changes is progress and growth. And finally they have learned that the stock market can be used for intelligent investment rather than for "playing" it. Purchase rights accruing at a time when all the funds were profitably tied up showed the importance of liquidity, but beyond the need for some retained liquidity it could be seen that active membership in our economy by way of investment does not require very large funds. One student observed: "It seems to me that an individual with sufficient savings who refuses the chance of buying into our economy is about as bad in an economic sense as a non-voter is politically." It is in the classroom that interest is kindled and investors as well as analysts are made. Their scholarships pay off.

* * *

IDEAS OF A DIFFERENT NATURE

"As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible, avoiding occasions of expense."—*George Washington.*

"A second fundamental theorem respecting capital relates to the source from which it is derived. It is the result of saving."—*John Stuart Mill.*

"We have seen that the effective supply of any agent of production at any time depends firstly on the stock of it in existence, and secondly on the willingness of those in whose charge it is to apply it in production."—*John Marshall.*

"A businesslike control of the rate and volume of output is indispensable for keeping up a profitable market, and a profitable market is the first and unremitting condition for prosperity in any community whose industry is owned and managed by businessmen."—*Thorstein Veblen.*

"The laws and conditions of the production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them."—*J. S. Mill.*

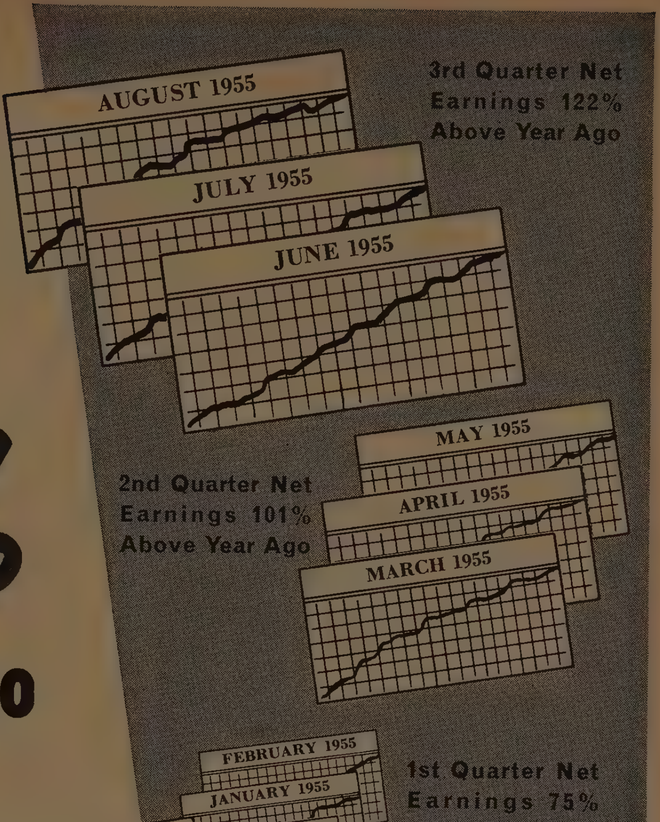
"Every important question must be studied from the consumer's point of view."
—*F. Bastiat*

"The truth is, then, that saving may be a condition precedent to the increase of either private or social capital, but that social saving involves as a further step the direction of the savings to the creation of social capital."—*Herbert Davenport*

Nine Months Net Earnings

103%

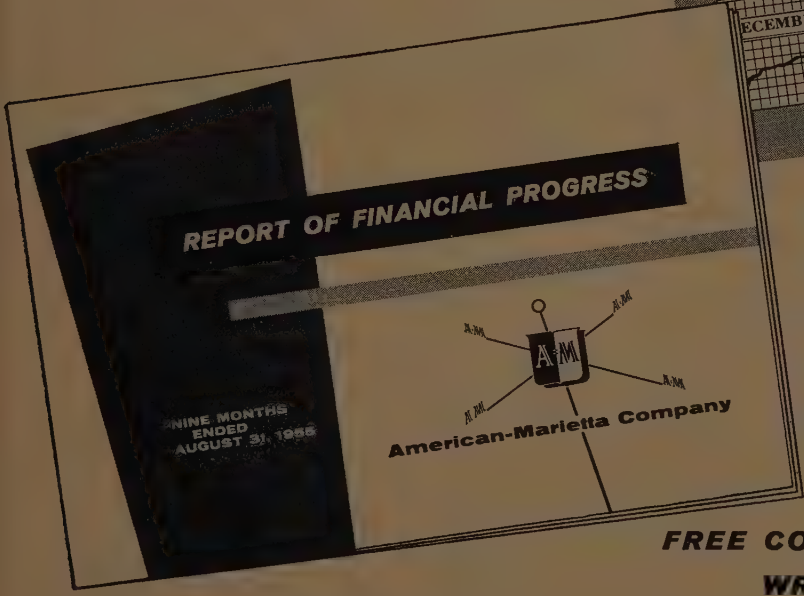
Above Year Ago



3rd Quarter Net Earnings 122% Above Year Ago

2nd Quarter Net Earnings 101% Above Year Ago

1st Quarter Net Earnings 75% Above Year Ago



REPORT OF FINANCIAL PROGRESS

NINE MONTHS ENDED AUGUST 31, 1955

American-Marietta Company

Nine Months Report Mailed to 14,300 Shareowners

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HOUSEHOLD PRODUCTS • BUILDING MATERIALS

Revelations in Progress Through Modern Research

How many baskets for corporate eggs?

Cervantes' wise counsel against venturing all your eggs in one basket may be as well applied to a large company as to an individual. That's why National Distillers' management began a diligent search for additional, promising "baskets" for its capital funds back in 1949.

Their choice: the fast-growing industrial chemical industry . . . for which previous experience well suited the company.

First step—a sodium and chlorine plant completed at Ashtabula, Ohio, in 1950.

The following year U. S. Industrial Chemicals Co., Inc.—now National's U. S. I. Division, managing all chemical operations — was acquired by merger.

In 1952, two sulfuric acid plants and a caustic soda plant were acquired. Then, at Tuscola, Ill. in 1953, came giant National Petro-Chemicals Corporation, 60% owned by National Distillers, with such products as propane, butane, ethyl chloride and industrial alcohol.

Late in 1954 a new ammonia plant at Tuscola began producing raw material for nitrogen fertilizers. It was followed early in 1955 by Petro's polyethylene plant now making the wonder plastic used for such diverse products as food packaging, radar equipment, toys and flexible pipe.

National Distillers expects to continue its orderly expansion in related chemical fields when careful scientific and marketing research indicate that promising potentials exist. At the same time, the Beverage Division's famous brands of liquors continue to gain a greater share of the alcoholic beverage market.

National Distillers Products Corporation

NEW YORK 16, N. Y.

Kentucky Whiskies: **OLD GRAND-DAD • OLD TAYLOR • OLD CROW • OLD SUNNY BROOK (BRAND) • HILL and HILL • BOURBON DE LUXE**

Whiskey: **PM** • • *Blended Whiskey:* **BELLOWS PARTNERS CHOICE, 60% Grain Neutral Spirits, 86.8 Proof**

Blended Scotch Whisky: **KING GEORGE IV, 86.8 Proof** • • *Cordials:* **deKUYPER**

Gin: **GILBEY'S DISTILLED LONDON DRY GIN, 100% Grain Neutral Spirits, 90 Proof** • • *Canadian Whisky a blend:* **DOMINION TEN, 86.8 Proof**

Yardsticks for the Market

LEWIS L. SCHELLBACH

On the bulletin board of the old *Morning World*, Joseph Pulitzer displayed the good newspaperman's watchword, "Accuracy, Accuracy, Accuracy." The motto is perhaps more important in Wall Street than in the Fourth Estate. You doubtless know from experience how much trouble you can get into by saying the Widget Corp. earned $2.04 a share, when it should have been $4.02. Your error may stab someone in the pocketbook, the most sensitive part of his anatomy, as his screams of anguish will attest.

In view of Wall Street's justified fetish for accuracy, it is not surprising that an increasing number of financial analysts are concerned with the accuracy of the yardsticks they use to measure the market's upward and downward progress. We know that is so because of the rising tide of correspondence asking what distinguishes the Standard & Poor's weighted stock price indexes from the unweighted averages that are still given wide circulation.

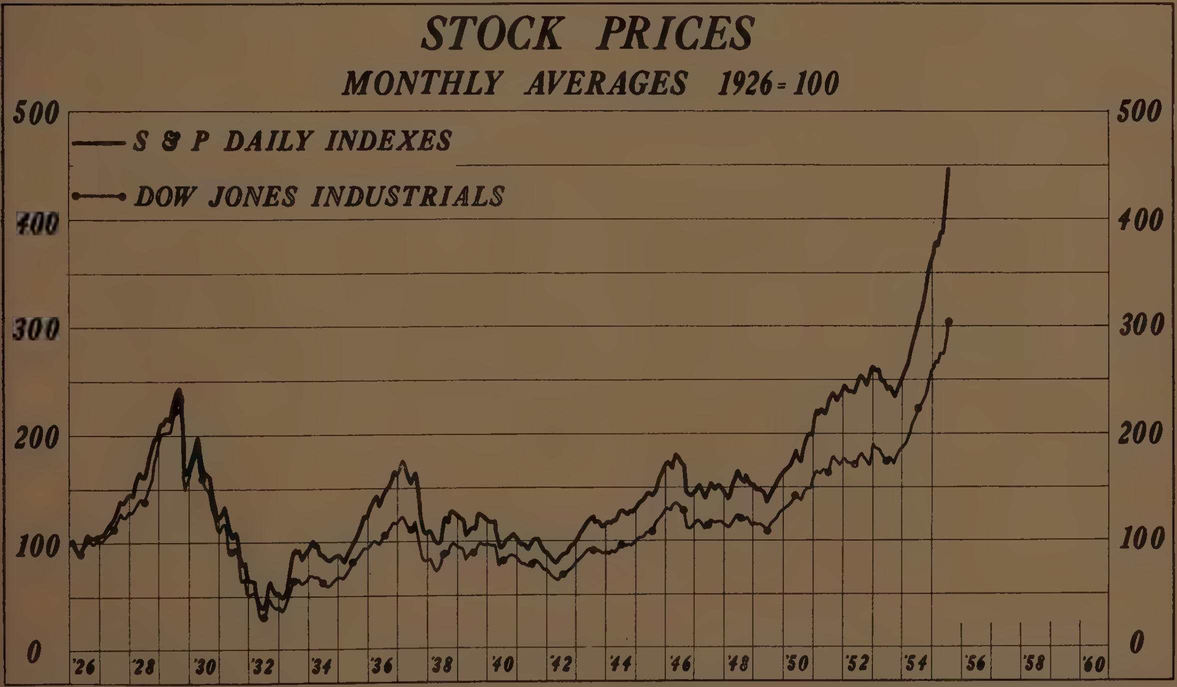
THE UNWEIGHTED AVERAGE

The unweighted average, as typified by the Dow-Jones 30 industrials (similar methods with variations, are used by the New York Times, Herald-Tribune and Associated Press), started out as a simple average of prices of the stocks selected for sampling purposes. For example, prices of the 30 industrial stocks in that average were added together and divided by 30.

It soon became necessary, for the sake of continuity, to make some sort of adjustment for stock splits, stock dividends, and other changes in capitalization. The Dow-Jones statisticians solved that particular problem by reducing the divisor.

As a hypothetical illustration, suppose that the total of prices of 30 socks is $2,700, so that their average is $90 a share. Suppose further that one of the stocks, selling at $100 a share, were split two-for-one. That action would automatically cut the total of prices by $50, and the average by $1.67. Unless an adjustment were made, therefore, the average would drop from $90 to $88.33 if prices of all other stocks in the list were unchanged, which would give a false impression of market weakness. If the divisor is reduced to 29.44, however, the average price remains $90.

As a result of such reductions to accommodate capitalization changes over the years, the divisor used on the Dow-Jones daily average of 30 industrial stocks is now 5.52.



In this chart, the Dow-Jones average of 30 industrial stocks has been adjusted to the same base as the Standard & Poor's 50 industrials. The two conformed fairly well until 1932, but in subsequent years the S. & P. measure has established a lead of almost 50%, for the reasons outlined in the accompanying analysis.

INDEXES ACHIEVE CONTINUITY

The index method, pioneered by Standard Statistics Company (now Standard & Poor's) "weights" each stock used in the index according to the number of shares outstanding in the hands of investors.

Using our daily index of 50 industrial stocks for purposes of illustration, the price of each of those stocks is multiplied by the number of shares outstanding to give the total market value. The total of those market values is then expressed as a relative to a standard base market value, which has at all times an index value of 100. In other words, if the total market value of the 50 stocks in the base year 1926 averaged $10 billion and their current market value were $35 billion, the index would now stand at 350, subject to certain adjustments.

ADJUSTMENTS

The problem of adjustments for stock dividends, stock splits, rights, etc., is greatly simplified in the weighted index (as compared with the arithmetic average). The total value of one million shares of unsplit stock selling at 100 is identical with that of two million shares of split stock selling at 50. The adjustment, therefore, is automatic.

Moreover, the stock's relative position (weighting) in the index is unchanged, whereas in the arithmetic average its relative importance is reduced by 50%. This is not important in measuring hour-to-hour or day-to-day fluctuations, but becomes a significant factor when an average is used to measure market changes over a period of years. For the most part, those stocks that have been split or have paid stock dividends represent companies that have been participating fully in the growth of our economy. In a weighted index, their relative position is maintained; in an arithmetic average, their relative importance is reduced, while the importance of stocks not split is correspondingly increased.

THE WEIGHTED INDEX

In another respect, informed statisticians believe the weighted index is the more accurate measure of the stock market. More people hold more shares of U. S. Steel (which has over 53 million shares outstanding) than of Bethlehem Steel (which has 9.5 million shares). The fortunes of a typical (or composite) stockholder are therefore more nearly represented by an index weighted for number of shares than by an arithmetic average.

The charge is sometimes made that no index or average is sufficiently comprehensive to give a true reflection of the entire market. In reply, it may be pointed out that the Standard & Poor's weekly index of 480 issues represents some 80% of the total market value of all common stocks listed on the New York Stock Exchange. That is surely a representative sample. The daily index, which is also computed hourly, conforms rather closely to the weekly index in its fluctuations over a period of years.

The average newspaper reader apparently does not care a great deal about the accuracy of the market average he sees. He wants to know whether stocks were up or down yesterday and roughly how much. The economist or financial analyst, however, has a greater responsibility.

Stock price movements are an integral and important part of the total economy. If an economist draws weighty conclusions from the market's relationship to other measures of economic growth, he should make reasonably sure that his yardsticks are all 36 inches long.

To illustrate, if Washington had been watching the Standard & Poor's industrial stock price index, the Fulbright investigation might have been held in 1952, rather than 1955. It was in the earlier year that the "Standard 50" pushed above its 1929 high, while most of the unweighted averages did not crack that historic barrier until late 1954.

ACCURACY OF THE TECHNICIAN'S TOOLS

The market "technician" has an even greater stake in the accuracy of the tools he uses. Suppose he attaches considerable importance to "support" and "resistance" areas—price ranges in which the market has met support on previous declines or in which heavy selling has resisted previous advances. Unless his yardstick is of standard dimensions, he may find his conclusions faulty.

Suppose he wants to determine at what point most of the buyers of stock in an unusually active past period are "under water" or at what point they have a profit. The accuracy of his measuring rod may well weigh heavily in his conclusion with respect to the resulting psychological state of mind of those particular investors.

Suppose he is plotting the action of a given stock or industrial group of stocks against the general market. Using one average as the basis for comparison, he might conclude that he has hit upon a growth situation; with another, his appraisal might be entirely different.

STANDARDIZATION WOULD BE HELPFUL

There is no intention here to go into the merits of various technical signposts. Every analyst has his favorite formulations by which he sets great store. He owes it to himself and to his clients, however, to be certain his technical research is done with the most reliable available tools and measurements.

The matter of availability had, until recently, somewhat handicapped users of Standard & Poor's indexes. That handicap has now largely been overcome. They are quoted daily in many newspapers, via the United Press financial wire, and hourly on the Commodity News Service ticker. Since August 1, the American Stock Exchange has been running the hourly indexes, together with opening, closing, and daily high and low on its nationwide system of stock quotation tickers.

That step by AMEX has given new impetus to the use of Standard & Poor's stock price indexes, to a point where it seems possible that The Street may settle on them as the standard measurement of stock price movements. Not only would a moderate amount of money be saved by the elimination of duplicating computations, but a considerable degree of confusion could be avoided in discussions of the market.

SOCONY MOBIL OIL COMPANY, INC.

Dividend No. 179

The Board of Directors on October 25, 1955, declared a quarterly dividend of 50¢ per share and an *extra* dividend of 50¢ per share on the outstanding capital stock of this Company, payable December 10, 1955, to stockholders of record at the close of business November 4, 1955.

W. D. Bickham, *Secretary*

RADIO CORPORATION OF AMERICA

Dividend Notice

The following dividends have been declared by the Board of Directors:

First Preferred Stock

87½ cents per share on the First Preferred Stock, for the period October 1, 1955 to December 31, 1955, payable January 3, 1956, to stockholders of record at the close of business December 12, 1955.

Common Stock

A quarterly dividend of 25 cents per share on the Common Stock, payable October 24, 1955, to stockholders of record at the close of business September 16, 1955.

ERNEST B. GORIN,
Vice President and Treasurer

New York, N. Y., September 2, 1955

Allied Chemical

The following dividends have been declared on the Common Stock of Allied Chemical & Dye Corporation:

Quarterly dividend No. 139 of $.75 per share, payable December 9, 1955, to common stockholders of record at the close of business November 10, 1955.

Special stock dividend at the rate of one share of common stock for each twenty shares of common stock outstanding, payable December 15, 1955, to common stockholders of record at the close of business November 10, 1955.

R. F. HANSEN, *Secretary*

October 25, 1955.

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you can teach an electron new tricks!

Electrons . . . invisible slaves that turn night into day or transmit voices and pictures across the continent in a split second . . . are being taught new tricks every day at Texas Instruments. Radios that fit in your pocket, computers that calculate payrolls and predict elections, projectiles that find and destroy their targets . . . all are made possible by your servant, the well-trained electron.

At Texas Instruments, scientists and technicians are developing increasingly better devices . . . *electronic components* . . . to make the electron behave exactly as he is supposed to. For example, an electronic *delay line* enables electrons to measure extremely short time intervals . . . less than a millionth of a second! Other TI-made devices for training the electron include *transformers* . . . to increase his force; *resistors* . . . to slow him up; *capacitors* . . . to control the flow of electrons through a circuit. Newest development in the higher education of electrons are *transistors* . . . pea-sized devices that are rapidly displacing bulky, fragile vacuum tubes in many applications. TI is the world's leading manufacturer of transistors.

Besides these electronic devices, other Texas Instruments products range from precision optical components to intricate military electronic systems. TI is also a pioneer in the development and use of electronic equipment (seismic instruments) for finding oil.

TWENTY-FIFTH YEAR OF PLANNED GROWTH

keep an eye on TI

TEXAS INSTRUMENTS
INCORPORATED
6000 LEMMON AVENUE DALLAS 9, TEXAS

LET TWO PRODUCTION SPECIALISTS SHOW YOU

what the atom really does to steel's growth

There's production for rapidly increased volume — like a rabbit's.

Then there's production like a mink's, whose one litter a year of tougher pelts brings far higher returns than a rabbit's three.

Atomic power promises to make the steel industry produce like a bunny. New power plants are sure to create more demand for all kinds of steel.

But the real growth story is not this predicted increase in basic steels. It's a boom in the mink-grade steels.

An atomic power plant includes a steam boiler, as in a conventional plant. The tubes are carbon steel. But the jewelry end of the plant, the reactor which replaces a conventional furnace, requires its own special set of tubes—of stainless or other premium metals. Because the reactor tubes dare not leak, because all the equipment —the pump, the heat exchangers—must function indefinitely, no expense is spared to obtain the most enduring metals.

Carbon steel tubes for conventional boilers cost about $250 a ton. Stainless tubes for the reactor cost about $3,000 a ton.

For just one atomic-energy installation, Republic Steel furnished four-million feet of ENDURO Stainless Steel tubing.

Already the largest producer of stainless and alloy steels, Republic this year completed 22,000 tons of additional stainless steel finishing capacity.

REPUBLIC STEEL General Offices: Cleveland 1, Ohio

Where diversification creates stability

The Dow Jones Industrials vs. the Dow Jones Industrial Average

ROBERT B. SHAW

A LEGISLATOR IN one of our Middle Western states one day noticed his teen-age daughter struggling with that odd geometrical value expressing the relationship between the diameter and circumference of a circle, frequently abbreviated to 3.1416, but more exactly written as 3.1415926, and usually designated as *Pi.* To him the use of this cumbersome value was nothing more than another preposterous example of the impractical scholarship foisted upon innocent high school students by starry-eyed academicians. Inspired to a crusading fervor, he determined to win the undying gratitude of the schoolchildren in his state by correcting this abuse and forthwith introduced a bill into the legislature providing that *Pi* should be altered to three exactly, in place of the former value of 3.1415926. The bill was first referred to the Committee on Weights and Standards, where it received favorable consideration and a recommendation for passage, some of the legislators evidently being under the impression that its purpose was to regulate the size of pie cuts at public lunch counters. It was close to the point of final enactment when mathematicians and schoolteachers succeeded in making the legislators realize that the value of *Pi* cannot be altered by legislative fiat.

Like *Pi,* many standards of measurement have been fixed immutably by the laws of nature and there is no point in discussing them. But other measures and values are purely human creations, established arbitrarily to serve as useful tools, and liable either to obsolescence as conditions change, or to occasional refinement to preserve their original significance.

Probably to many people having only a superficial acquaintance with the investment field, the familiar Dow Jones Industrial Average belongs to the first category of values and is regarded as an infallible measure of "the market." Securities analysts are very well aware, however, that the DJIA is subject to several distortions that modify its reliability as an index of overall market performance. Similar objections may, of course, be raised against other indexes, and it is pretty well recognized among analysts that there is no such thing as the perfect stock index and that the search for one is doomed to failure. The problems encountered in the use of the more familiar indexes have been discussed in previous issues of the *Analysts Journal* and it is not necessary here to discuss at length the several distortions that affect the DJIA.

BIAS INTRODUCED BY HIGH-PRICED ISSUES

Briefly, however, the major distortion in the DJIA arises from the use of a simple divisor, without adjustment of the component stocks either to a base period or for total shares outstanding. Thus, recurrent stock dividends and splits have altogether destroyed the original price relationships, and while the constant reduction of the divisor has preserved the continuity of the index, the high-priced stocks have gradually come to carry far more weight in the index than the low-priced issues. This effect can be illustrated briefly by a simple example. Suppose the index consisted of only three stocks, selling at 30, 30 and 180 (total 240) respectively. On a later occasion, they have changed to 20, 20 and 200 (total still 240). Obviously the market has suffered a sharp decine — 18%, if all three stocks were weighted evenly — but the index would remain unchanged.

Such results have by no means been confined to theoretical cases. To cite a recent specific instance of the same effect, on July 5, 1955, du Pont, stimulated by rumors of an impending split, climbed 10⅞, alone accounting for 35% of the rise of 5.60 points in the DJIA on the same day. On the following day General Motors, after actual announcement of its 3-for-1 split, shot up 14⅜, and this single issue was responsible for 33% in the DJIA's jump of 7.99 points. If an exhaustive search of the records were made into the more remote past, still more spectacular examples of the abnormal weight of a single high-priced issue could probably be found. And what is more important is that this effect, noticeable even in a single day's trading, has been magnified into a significant bias over a period of years.

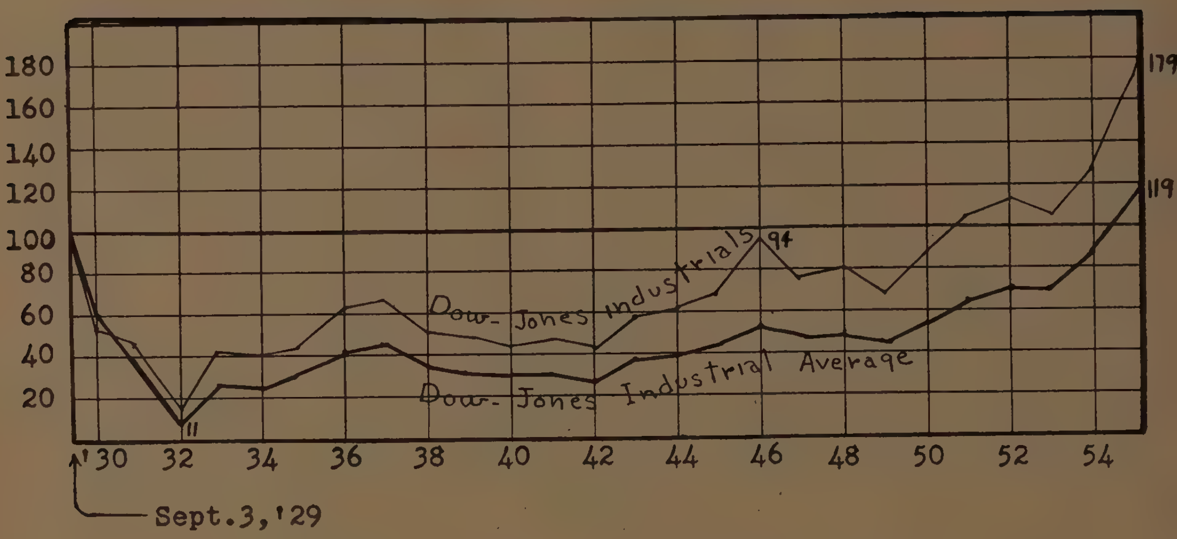
By observing how the performance of the Dow Jones *industrials* has varied from the DJIA, the extent of this distortion becomes clear. To make any such comparison, some base period must be taken. Two base periods have been selected here as having some special significance: September 3, 1929, and June 30, 1946. The former date represents, of course, the highest peak reached on the DJIA before the long-remembered stock market crash; and the latter, although taken at mid-year for convenience, corresponds closely to the market's highest post-war recovery before the 1946–49 bear market. (The actual peak in the DJIA at this period was 212.50 on May 30; on June 30 the DJIA closed at 205.62.) Following the base date, all component issues in the DJIA are priced at each subsequent June 30.

In working out the performance of the Dow Jones *industrials,* the price of each issue on the base date was taken as a base, and all subsequent prices translated into a percentage of that base. The value of the list as a whole at each subsequent interval was, in turn, derived from those percentages. The effect is that each issue, regardless of price, has been given equal weight. Complete adjustment

DOW-JONES INDUSTRIAL AVERAGE
compared with
DOW-JONES industrials*

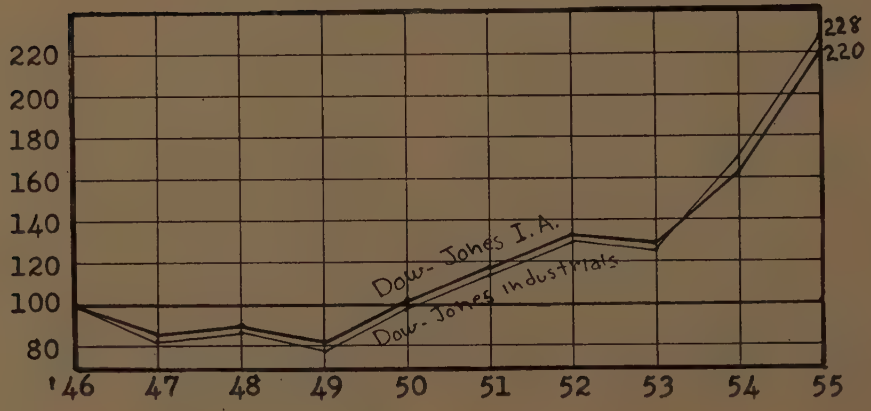
I. 1929 - 1955

(Sept. 3, 1929 = 100)



II. 1946 - 1955

(June 30, 1946 = 100)



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* fully adjusted for splits, stock dividends, substitutions, etc.

has been made for all splits, stock dividends and split-offs (except some split-offs that have involved only negligible fractions.) Where the components of the DJIA have been changed, substitutions of the new for the old issues have been made at the same index value which the old issues then held.

TRUE PERFORMANCE OF DOW JONES INDUSTRIALS

The results of this study, covering the periods since Sept. 3, 1929 and June 30, 1946 respectively, are shown in Figures I and II. In the period 1929 to date it will be noted that the Dow Jones *industrials* considerably outperformed the DJIA. In fact, the *industrials* approached their 1929 peak as early as 1946, and definitely passed it in 1951. Two reasons will explain the superior performance of the *industrials.* First of all (as remarked above) the DJIA gives greater weight to high-priced stocks, and thus to successful issues — until they split. After they split, their influence is sharply reduced. Thus, the "Average" has given an exaggerated weight to the stocks which never or only very recently split. Secondly, the DJIA does not reflect small stock dividends, which should, nevertheless, be taken into account in a true measure of the market's performance.

Since 1946 the performance of the Dow Jones *industrials* has corresponded much more closely with the DJIA. Most of this period the "Average" has run a trifle ahead of the *industrials,* but in the last two years this relationship has been reversed, and the true performance has moved ahead of the "Average." This reversal apparently reflects the recent epidemic of stock splits, that has considerably reduced the weight of the "successful" stocks in the DJIA, and given an increased weight to such issues as General Foods, International Nickel and Woolworth — the only three original components of the list that have never been split.

Since it is generally considered a creditable performance for managed stock funds to match the DJIA, it may come as a somewhat unpleasant discovery to analysts to learn that the true performance of the Dow Jones *industrials* in the twenty-five year period 1929–1955 has considerably bested the "Average." To any criticism of investment management that might arise on this score, there are, however, several powerful countervailing arguments. First of all, as examination of Figure I will show, the superior performance of the Dow Jones *industrials,* as compared with the DJIA, occurred entirely in the period 1929 to 1946, at the end of which the *industrials* had recovered almost to par (actually to 94% of base value) while the "Average" had crept back only to 54. Since that date up to 1955 — and still using 1929 as a base — the "Average" has performed 16% better than the evenly weighted *industrials.* Shifting to a new base in 1946, as Figure II does, the subsequent performance of the two indexes has been very nearly parallel. For many present security analysts the period 1929–1946 is now remote as well as fantastic.

Secondly, as already remarked, the DJIA disregards small stock dividends, which are here reflected in the Dow Jones *industrials.* Investors are also likely to overlook small stock dividends when appraising long range market performance.

A third qualification is that the Dow Jones Industrial Average itself has been in many respects closer to a managed fund than a true index. No changes have been made in its composition since 1937 so that it may now seem almost as immutable as *Pi,* but during the earlier years the changes were fast and furious. Only 17 of the original 30 components have survived unchanged since 1929, and among the remaining 13 components no less than 23 substitutions were made at one time or another. Two issues were even taken out of the list and subsequently restored to it. The ostensible purpose of such changes was, of course, to keep the "Average" representative, and it is quite true that the components of any index must be adjusted over a period of time if the index is to remain significant. Just the same, the frequency of changes in the DJIA between 1929 and 1937 raises a question as to whether the "Average" can be considered as typical of an unmanaged account during that period.

SUBSTITUTIONS HAVE OUTPERFORMED ORIGINAL COMPONENTS

Just as in every securities list, the Dow Jones *industrials* have been significantly influenced, both favorably and adversely, by the distinctly abnormal performance of a few individual issues. Giving all issues an equal weight, as in this study, the effect of any single one of them can be readily ascertained. If either the best performer or worst performer had been omitted from the list (so that it consisted of 29 instead of 30 issues), the results would have varied as follows:

Performance of Dow Jones Industrials

	Sept. 3, 1929	June 30, 1946	June 30, 1955
Actual	100	94	179
Omitting best performer (National Distillers)	100	72	166
Omitting poorest performer (American Tobacco)	100	95	184

It may further be questioned whether an "Average" that can be affected to this extent by the inclusion or omission of a single issue can be regarded as representative of "the market." In any case, as is shown by Table A, all the substitutions as a group performed conspicuously better — 46% better — through 1946 than the original components of the list. Thus, the changes in the Dow Jones list, whether considered as management or as adjustments to improve representation, have had a significant effect upon its performance.

Further insight into the composition of the DJIA can be gained by looking for the explanation of the sharp recovery in the *industrials* in 1946, as contrasted with the much more moderate bulge in the "Average." One reason is that three of the most successful issues — Loew's, Sears and Westinghouse Electric — split shortly before June 1946, thus abruptly reducing their influence upon the DJIA. National Distillers (together with its predecessors forming a single component in the list) was by

Table A

Relative Performance of the Seventeen Dow Jones Industrial Components *Unchanged* Since 1929

	Sept. 3, 1929	June 30, 1946	June 30, 1955
Allied Chemical	100	64	150
American Can	100	55	98
American Smelting	100	52	94
Bethlehem Steel	100	81	309
Chrysler	100	178	225
General Electric	100	48	161
General Foods	100	71	114
General Motors	100	99	303
International Harvester	100	68	82
International Nickel	100	71	131
Sears Roebuck	100	105	231
Standard Oil (N. J.)	100	118	403
Texas Co.	100	93	299
Union Carbide	100	85	225
U. S. Steel	100	35	125
Westinghouse Electric	100	50	107
Woolworth	100	57	49
Index—17 unchanged components	100	78	183
Index—13 revised components	100	114	173
Index—All D. J. **industrials**	100	94	179

far the most successful stock in 1946, reaching an index of 741% of its 1929 value, but as it was relatively low-priced even then — it has twice split 3-for-1 — it did not carry the same weight in the "Average" as it does in the equally weighted *industrials.*

NATIONAL DISTILLERS AN EXAMPLE

National Distillers provides a conspicuous example of fortunate switches in the DJIA. This component started out in 1929 as Texas Gulf Sulphur, and was changed in 1930 for International Shoe, an issue which proved to offer considerable resistance to the depression's lowest ebb. Then in 1932 International Shoe was changed to United Aircraft, just in time to come in for a phenomenal rise in the latter, with the result that this component stood at 236 in 1933, when the *industrials* as a whole still trailed at 41. United Aircraft was again changed to National Distillers in 1933, in time to reap the benefits of Repeal. Thus, while National Distillers has been an undistinguished performer in the last four or five years, it still represents the most successful component — on a 1929 base — among the Dow Jones *industrials.*

In recent years, the failure to make changes in the composition of the DJIA, as during the early period, has probably affected the performance of the list adversely, although presumably improving its validity as an index. Thus, Loew's (originally Paramount) was the third best issue among the Dow Jones *industrials,* in 1946, but with the advent of television it had fallen, by 1955, to sixth from the bottom.

DJIA CLOSE TO "TRUE PERFORMANCE" SINCE 1946

Much of the above discussion, which may seem to imply too harsh a criticism of the DJIA, applies to the period prior to 1946. For a number of reasons, comparisons with 1929 are no longer very significant and data using a 1929 base may be regarded simply as ancient history. As Figure II shows, the performance of the DJIA and of the Dow Jones *industrials* since 1946 have been very nearly identical — so nearly so that the minor variation can perhaps be excused on the basis of simplicity in computation. It may be that the upward bias in the "Average" introduced by the high-priced stocks is approximately compensated for by eventual splits in the same stocks and by the disregard of small stock dividends. On the other hand, stock splits usually come in epidemics and when these occur the influence of the most successful growth stocks upon the DJIA may be abruptly reduced, and an abnormal weight assumed by such issues as Telephone and American Tobacco.

This might seem to suggest that the Dow Jones Industrial Average should have been computed on the same basis as the Dow Jones *industrials,* i.e., with the continuing value of each stock expressed as an index of its actual value at some base period. Probably there would be objections to that method as well, while the sharper critics of the DJIA would hardly be satisfied with a mere refinement in that index. This study supplies evidence — if any is still needed — that the DJIA is not an altogether rigid yardstick.

STATEMENT REQUIRED BY THE ACT OF AUGUST 24, 1912, AS AMENDED BY THE ACTS OF MARCH 3, 1933, AND JULY 2, 1946 (Title 39, United States Code, Section 233), SHOWING THE OWNERSHIP, MANAGEMENT, AND CIRCULATION OF

THE ANALYSTS JOURNAL, published five times a year at New York, N. Y., for October 1, 1955.

1. The names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher,
THE NATIONAL FEDERATION OF FINANCIAL ANALYSTS SOCIETIES, 270 Park Ave., Rm. 903C, New York 17, N. Y.
Editor, PIERRE R. BRETEY,
25 Broad Street, New York 4, N. Y.
Managing Editor, HELEN SLADE,
400 East 57th Street, New York 22, N. Y.
Business Manager, JOHN STEVENSON,
60 Wall Street, New York 5, N. Y.

2. The owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding 1 percent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a partnership or other unincorporated firm, its name and address, as well as that of each individual member, must be given.)

The National Federation of Financial Analysts Societies,
270 Park Ave., Rm. 903C, New York 17, N. Y.
Shelby Cullom Davis, President, 110 William St., New York, N. Y.
Robert J. Wilkes, Executive Vice President, 10 Post Office Square, Boston, Mass.
George M. Hansen, Treasurer, 50 Congress St., Boston, Mass.
Daniel F. Nicholson, Executive Secretary, 221 North LaSalle St., Chicago, Ill.

3. The known bondholders, mortgagees, and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages, or other securities are:
None.

4. Paragraphs 2 and 3 include, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting; also the statements in the two paragraphs show the affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner.

5. The average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the 12 months preceding the date shown above was: (This information is required from daily, weekly, semiweekly, and triweekly newspapers only.)

JOHN STEVENSON,
Business Manager

Sworn to and subscribed before me this 14th day of September, 1955.

ROSALIE F. McGLEW
Notary Public, State of New York.
Qualified in Nassau County, No. 30-7833000.
Term expires March 30, 1956.

BOSTON EDISON COMPANY

Dividend No. 266

A quarterly dividend of 70¢ per share has been declared, payable November 1, 1955, to stockholders of record at the close of business on October 10, 1955.

Checks will be mailed from Old Colony Trust Company, Boston.

ALBERT C. McMENIMEN, Treas.

Boston, September 26, 1955.

AMPHENOL

AMERICAN PHENOLIC CORPORATION

At a meeting of the Board of Directors of American Phenolic Corporation held today a dividend of twenty cents per share was declared, payable October 28, 1955, to the shareholders of record at the close of business October 14, 1955. The transfer books will not be closed.

Dated at Chicago September 19, 1955.

FRED G. PACE
Secretary

AIR REDUCTION

Company Incorporated

AIRCO 154th CONSECUTIVE

COMMON STOCK DIVIDEND

The Board of Directors has declared a regular quarterly dividend of 45¢ per share on the Common Stock of the Company, payable on December 5, 1955 to holders of record on November 18, 1955, and the sixteenth regular quarterly dividend of $1.125 per share on the 4.50% Cumulative Preferred Stock, 1951 Series, of the Company, payable on December 5, 1955 to holders of record on November 18, 1955.

October 26, 1955.

T. S. O'Brien, *Secretary*

ARC

AIRCRAFT RADIO CORPORATION

Boonton, New Jersey

Dividend No. 91

On October 3, 1955, the Directors of Aircraft Radio Corporation declared on the Common Stock of the Company a dividend of twenty cents (20c) per share for the fourth quarter and a year-end dividend of ten cents (10c) per share, making a total of thirty cents (30c) per share, both payable on November 16, 1955, to stockholders of record at the close of business November 2, 1955.

Payment of this dividend on November 16, will make a total of ninety cents (90c) per share paid in 1955.

H. M. KINGSLAND, *Secretary*

We're Coming YOUR Way . . .

By tank car, pipe line, barge and truck D-X Sunray Oil Products are coming your way. We have consolidated our forces of oil production, refining, transporting and marketing, and are now ready to carry the D-X banner to new customers in many new areas—and to serve our old customers better.

SUNRAY MID-CONTINENT refineries now have a capacity to process over 36,000,000 barrels of crude oil each year. From the company's Oklahoma refineries, gasoline and other oil products are carried to the Mississippi River by the Oklahoma-Mississippi River Products Line, Inc. From West Memphis these products are sent by barge, train and truck into south-central states.

The Great Lakes Pipe Line, extending almost to the southern border of Canada, carries D-X products to distribution points in Kansas, Missouri, Iowa, Nebraska, the Dakotas, Minnesota and the Great Lakes region.

Additional distributors for D-X products are starting in business every month. New, more efficient D-X service stations are being opened as rapidly as good locations and dependable operators can be found.

Yes, the expansion program of SUNRAY MID-CONTINENT in the Midwest and Mid-south is under way. It is a carefully planned program—that will continually improve the company's position in the highly competitive oil business.

WATCH SUNRAY MID-CONTINENT GROW

D-X is the brand name of quality products manufactured by D-X Sunray Oil Company, a wholly-owned subsidiary.

SUNRAY MID-CONTINENT
Oil Company
GENERAL OFFICES SUNRAY BUILDING TULSA, OKLAHOMA

More room in the sky
... through
TACAN

Revolutionary IT&T development
... providing multiple airlanes instead of one!

This remarkable system can virtually make the sky as much as "ten times wider."

Now *parallel* all-weather airlanes can be marked off in the sky by electronic means ... airlanes that lie side by side, only a few miles apart, yet never meet. This can now be accomplished through a single airborne "package" that measures the distance and bearing to a known ground station and, through a computer, produces courses with a precision never before attained.

Thus, in heavily-traveled areas, multiple and accurate routes can be provided for aircraft to fly safely and efficiently, maintaining heavy traffic schedules in adverse weather.

TACAN is the result of a series of development programs sponsored by the U. S. Navy and the U. S. Air Force at Federal Telecommunication Laboratories, a division of IT&T. Federal Telephone and Radio Company, division of IT&T which now manufactures the military version of TACAN, will also manufacture and market the commercial aircraft and private flier versions of the equipment.

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INTERNATIONAL TELEPHONE
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A Security Analyst Appraises the Impact of Soviet Technique

ROBERT S. BYFIELD

ALMOST ALL LITERATE AMERICANS know about and have probably, at one time or another, talked about the "Cold War." Yet only a small fraction of them seem to understand the meaning of this term; still fewer have attempted to identify and classify its components or analyze it generally. Unfortunately, generalizations, including labels and slogans, may be dangerous because they intend to obscure underlying facts.

On July 6 last, the chief of the French General Staff, General Guillaume, in Melbourne, Australia, said that the ight against Communism had little connection with national boundaries and weapons of defense. He stated that France had been defeated in Indo-China by a *new type of psychological and political warfare* which was totally unlike the type of warfare she had become used to through the centuries.

A few months earlier, General Franco, of Spain, remarked that "for Russia anything is a weapon. The United Nations is a weapon; the Four Power conference is a weapon which she uses marvelously. She converts everything into an infernal machine at her service."

CHARACTERISTICS OF THE COLD WAR

Although the views of the Generals Guillaume and Franco may be startling, they are not new since they emphasize certain characteristics of what we have come to egard as the Cold War. For several thousands of years wars were fought in two dimensions by armies and navies. After 1914 air power added a third dimension or weapon. In the 1930's Nazi Germany and Soviet Russia commenced the use of a fourth weapon which quickly, and somewhat oosely, began to be called "psychological warfare." The Western Democracies began its use as World War II developed. Vastly improved modern technology with respect to all forms of communication has helped to elevate psychological warfare to the status of the Fourth Weapon now employed in varying degree by all of the Great Powers as an adjunct to military capability.

Primitive forms of the Fourth Weapon have been used in many wars since Biblical times. President Woodrow Wilson's announcement of his Fourteen Points in 1918 was a classic example, substantially contributing to the collapse of German arms by impairing the will of that nation to resist. What is new about the Cold War is the weapons-mix; that is, the role assigned to and emphasis placed upon the four types of weapons.

The Soviet concept of the Cold War may well be termed the Fifth Weapon, which is not a weapon at all in the conventional sense, but a concept or "methodology" for the total coordination, integration and manipulation of the first four traditional weapons. Furthermore, the theatre of the Cold War is the globe itself with the principal target the United States of America.

FACTS OFTEN OVERLOOKED

There is a wealth of facts, materials, statistics and other documentation for such an analysis. Hitler wrote only one book, *Mein Kampf,* in Nazi Germany. Few read it, fewer still believed, but he meant it. The Communists have written whole libraries full of books, pamphlets and directives. Radio stations behind the Iron Curtain have been blaring out the Communist position vis-a-vis the West, for anyone willing to listen and able to interpret. Recognized spokesmen for International Communism have been spelling out the minutest detail of the World Revolution in many languages.

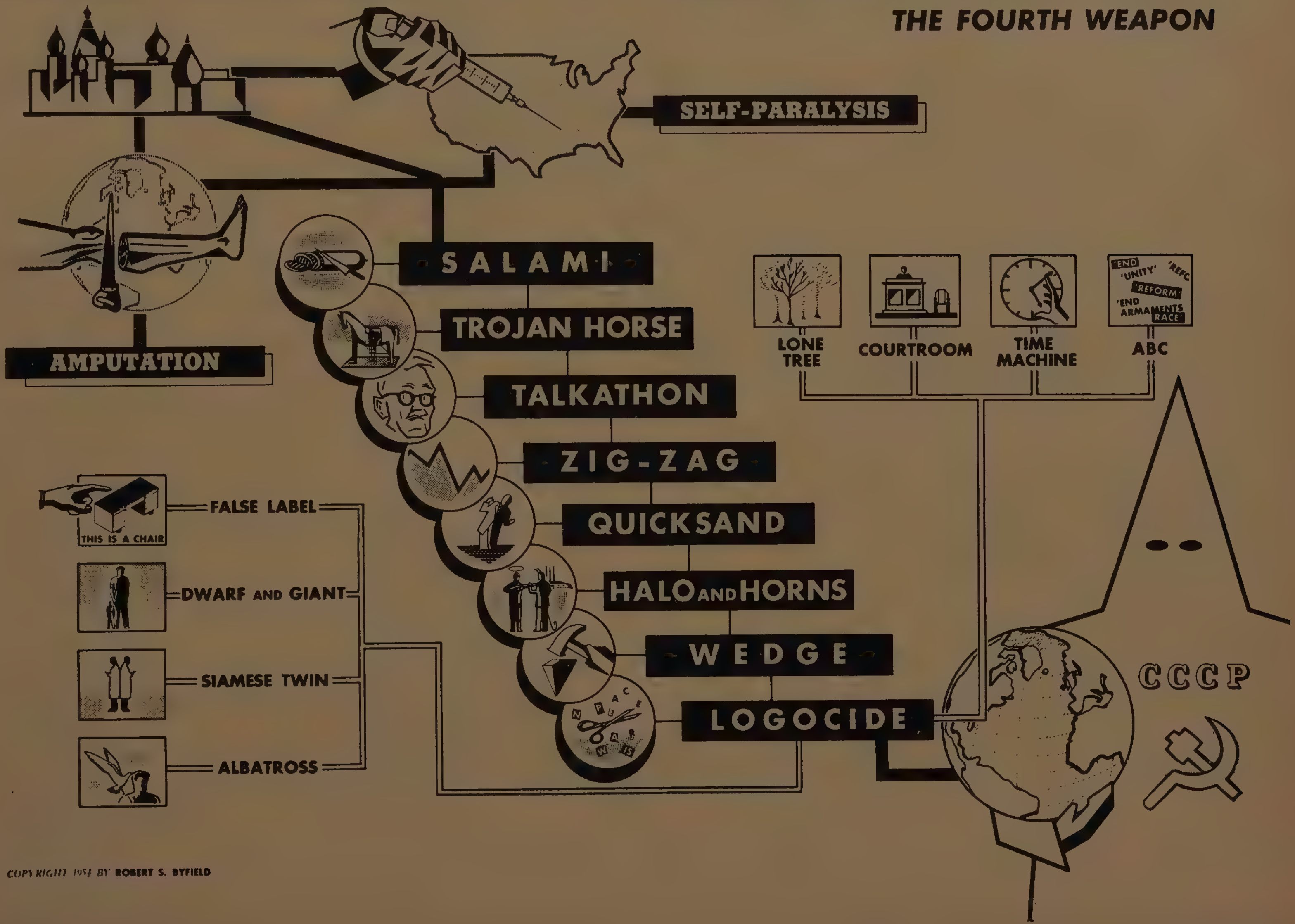
If the first three weapons are conventional land, naval and air warfare and the fourth, psychological warfare with all of its economic and social aspects, the Fifth Weapon is really the framework or weapons-mount which secures for the other three weapons the widest conceivable field of fire, range and effectiveness as coordinate parts of an over-all operational policy. More specifically, it brings to bear against its enemy, the United States, the functional interchangeability of, say, a covert threat to use guided missiles against Britain, a "germ warfare" charge against the United States and/or a maneuver in the Economic and Social Council in the United Nations.

In a sense, the Fifth Weapon attempts to seize the capitalist world intact. It used United Nations soldiers captured in Korea as "hostages" for bargaining purposes at the conference table to obtain military concessions. Some day they may be used in an attempt to obtain a seat for Red China in the United Nations. More recently, German prisoners held in Soviet Russia since World War II have been used to obtain diplomatic concessions from Chancellor Adenauer of West Germany. Any such conversion of prisoners into hostages illustrates the strengthening of the Fourth Weapon by means of the First Weapon, and the resulting action thereby attains Fifth Weapon magnitude.

Beginning with an attack on a United States Navy plane off Dairen on October 15, 1945, there have been many cases of attacks on airplanes of the Western Democracies. Their number and timing creates the definite pattern of a policy to influence diplomatic conferences or other nonmilitary action. In the most recent of these, shots were fired at a United States Navy plane on June 22, 1955 apparently timed to occur during the United Nations Tenth Anniversary Conference in San Francisco.

USSR TECHNIQUES OF PSYCHO-SOCIAL WARFARE–

THE FOURTH WEAPON



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PSYCHO-SOCIAL WARFARE

Although the Fourth Weapon, psycho-social warfare, is highly complex, its components may be identified and placed into definite categories. In promoting the Kremlin's plan for world conquest, the attack against the United States may be divided into two parts: *Amputation* and *Self Paralysis.*

The first comprises all efforts to injure us outside the Continental United States and it seeks to enfeeble our economy through six goals, viz:

1. To cut us off from supplies of raw materials abroad.
2. To destroy markets for our goods by putting millions of potential consumers behind the Iron Curtain.
3. To diminish or eliminate assets under our control through nationalization, socialization, confiscatory taxation, etc.
4. To shut off the flow of U. S. capital abroad except under conditions where its safety may ultimately be jeopardized.
5. To deprive us of our friends and allies.
6. To induce us to weaken ourselves financially and to over-extend ourselves in other respects.

THE KREMLIN'S PROPAGANDA THEMES

To promote *Amputation,* the Kremlin uses at least fourteen propaganda themes focussed on the so-called underdeveloped countries. Involved are the highly important Marxist-Leninist slogans regarding such matters as colonialism and the high profits alleged to be realized by United States capital invested abroad. Furthermore, the economic and psycho-social levers with which the Kremlin hopes to pry apart the seams of our civilization are firmly based on Marxist-Leninist doctrine which is described in such classic works as Lenin's "Imperialism, the Highest Stage of Capitalism," Stalin's "Marxism and the National and Colonial Question," and Victor Perlo's "American Imperialism."

Self Paralysis, the second component of the Fourth Weapon, aims to create pressures which will induce the United States to water down the strength of its economy, to impair its will to resist and to cut down its striking power. There has been unceasing propaganda to encourage us to shackle the vitality of our own free enterprise system, to slow down creative development, to lose confidence in our institutions, to cease risking capital in new ventures and to cause us to sicken from internal friction and class conflict. In this category are the violent and persistent attacks on "profits," "monopolies" and "big business." The destructive potentials of the exploitation of frustrations, internal dissents, human suffering, ignorance and envy in any country, including our own, must not be underestimated. *Self Paralysis* harnesses greed, loosens hatred, incites inferiority feelings and chains obsessions and phobias to the Communist propaganda apparatus.

EIGHT BASIC TECHNIQUES

Amputation and *Self Paralysis* are exploited at the operating level by the following eight basic techniques:

1. *Salami* — This is the technique of winning control of a country or of a political, economic or cultural institution slice by slice. Each slice taken is just small enough to fall short of arousing the kind of defensive action which might be prompted if a larger piece were involved. It was employed successfully in Hungary.

2. *Trojan Horse* — The well-known Trojan Horse corrupts from within in contrast to Salami which emasculates from without. Infiltration, boring from within, permeation, the seizure of key points — these are the invasion preparations. A para-military putsch following gradual corrosion climaxes the Trojan Horse operation. Guatemala afforded a classic example of this technique.

3. *Talkathon* — In official communist terminology the Talkathon is "revolutionary parliamentarism," i.e. obstructionism, procrastination, the legal monkey wrench, Roberts Rules of Order as a weapons-system, endless propensity for debate and disruption at conferences and meetings. The Talkathon's purpose is the wrecking of discussions rather than the reaching of agreement. Long and irrelevant discourse frequently masks guerilla movements on the far side of the world.

4. *Zig-Zag* — This tactic creates alarm and despondency by producing, alternately, false hope and frustration in opponents. It undercuts the will to resist. Zig-Zag is going forward into retreat; tension and relaxation; the sharp turn of the party line; tempting a man on the top of a mountain when he is starving and thirsty for the green fields beyond, and then when his hope is raised, sending him back to the desert. Lenin set the pattern when he advocated "zigzags" and "retreats" as part of conventional Soviet techniques.

5. *Quicksand* — Quicksand underlies both the "Big Lie" and the Red Herring. The objective is to exhaust the propagandee by consuming his energy in struggling with and refuting something that was never intended to be relevant. A "switcheroo" from a point of major importance to one of minor importance from the Kremlin's viewpoint. The "straw man" technique.

6. *Halo and Horns* — This is the well-known political warfare technique of playing "saints and sinners." The Kremlin, of course, has the Halo; the United States the Horns. All evils, including crop failures, can be explained in terms of "devil philosophy;" that is, capitalist agents spreading discord and sowing hoof-and-mouth disease inside the Soviet Empire.

7. *Wedge* — Creating or aggravating conflicts between such groups as rich and poor, blacks and whites, consumers and producers, labor and capital, city and farm, buyers and sellers, big business and little business, and so forth. The root idea of the class struggle, a basic Marxist concept, is itself a metaphysical Wedge.

8. *Logocide* — The use of words as instruments of social revolution is not new. Logocide is the technique by which the Soviet propaganda apparatus undermines the meaning of language and symbols of opposing ideologies. It involves the demolition of words, the destruction of language and the attempt to control the mind by a deliberate confusion of ideas.

The Logocide technique is implemented by eight rhetorical booby-traps which may be of particular interest to security analysts. In a sense the following categories of verbal jiu-jitsu apply to *speech* in contrast to the preceding eight operating techniques which concern themselves with *action:*

(A) *False Label* — This category has been referred to as "upside-down language." Under it a new glossary has been built up. An "Aggressor" becomes any one or nation opposing Soviet imperialism; "Peace" a condition of helplessness and indefensibility before the military might of the Red Army; "Co-existence," the lion and the lamb, and "Monopoly" any corporate enterprise.

(B) *Dwarf and Giant* — The essence of this trick is to make a given fact appear significant or insignificant, whichever is desired, by comparing it with a carefully selected other fact. For example, a person of ordinary stature can be made to look small, by placing him alongside a giant, or large by standing him next to a dwarf.

(C) *Siamese Twin* — The essence of this trick is to make the unlike appear identical. Professional semanticists describe this process as placing the object to be discredited inside a framework of reference which everyone already hates (sin, greed, corruption, envy, and so on.) For example, the use of the words "profit" and "profiteer" in close conjunction sets up the desired confusion and serves to arouse a hostile attitude toward a legitimate social act. "Imperialism" and "capitalism" have likewise been verbally shackled together. Similarly, in some quarters, the words "corporation" and "trust" are used interchangeably, to contaminate the former with the latter.

(D) *Albatross* — This is the trick of "hanging a dirty adjective around the neck of an expendable noun" (with due apologies to the Ancient Mariner.) No noun has had more dirty adjectives hung on it than "profit." The hatred which Communists and some other collectivists display toward that word verges on the psychotic. "Capitalism" is hardly ever used by itself. It is always "monopoly capitalism," "finance capitalism," or "imperialistic capitalism." What the United Nations was doing in Korea was not merely "warfare;" it was invariably "aggressive warfare."

(E) *Lone Tree* — This is the tactic of pointing out, and emphasizing, a lone tree in a forest of ideas. For example, Iron Curtain propagandists habitually charge that corporate profits in the United States have been the largest in the recent history of the country. This is sometimes true, but profits are only one of the component items in the national economy. Gross National Product, National Income, Wages and Salaries, and so on, are also at new high marks.

(F) *Court Room* — This smear tactic was used by the Communist North Koreans and Communist Chinese to discredit the United Nations forces defending South Korea; according to the Reds the United Nations was the "aggressor." In the Court Room a guilty defendant with a bad case proceeds to smear the district attorney, accuse the plaintiff, challenge the competence of the judge, plant a morals charge on the sheriff, bully the jury foreman and demand a change of venue. Smith shoots Jones and tells the coroner: "It wasn't my fault. Jones compelled me to be a murderer by getting in the way of my bullets."

(G) *Time Machine* — The Soviets do not hesitate to "turn the clock back" for political warfare purposes. Often their propaganda agents seek to "transplant" past events into the present to make their victims believe that abuses long since corrected, by sociological evolution or legislation, in our capitalistic society are still prevalent. The implication is, of course, that only collectivists can correct these evils.

(H) *ABC* — This "rhetorical booby-trap" is perhaps the semantic device with the widest and most subtle application. In the strategy of the Kremlin it is basic, for it carries an historical appeal designed to influence hundreds of millions of people who are yearning for simple answers or a quick panacea to relieve them of burdens and responsibilities. To achieve power, the Communists have designed a series of deceptive slogans to serve specious ends. Some of them are plausible — all of them are simple. You will recognize: "end to the armaments race," "prohibition of the atom bomb," "all foreign troops out of Korea," "land reform," "unity for Germany" and "peaceful co-existence."

THE KREMLIN IDEA OF WALL STREET

It has wisely been stated that mass movements can never rise and spread without belief in a devil. The theoreticians of the Kremlin picked "Wall Street" as the cause of all the world's troubles, a kind of universal scapegoat. This technique may be identified as a negative version of the ABC Trick. As used by the Communists, Wall Street denotes neither a street nor a financial mechanism, but *it is the symbol of capitalism,* free enterprise, private property and a voluntary society. The propaganda chiefs in Moscow have chosen their leading semantic target with great care because most Americans, let alone foreigners, are confused about Wall Street. They neither know much about it nor how it works. The heavy concentration of Soviet "hate language" overlarded with fraudulent economics against Wall Street is absolutely logical and correct from the Communist point of view. After all, central to Marxist dogma is the conviction that practically all economic, social, legal and cultural ills stem from the institution of private property and, when there is no longer any private property, Utopia upon earth will have arrived. Therefore, private property, with all of its artifacts and metaphysical trappings, must be assailed from every quarter.

The property owning classes, in this concept, are "sinful" and the propertyless classes "virtuous." This reasoning is extended to nations: those which permit the institution of private property to flourish are "evil" and those which do not are "good." A significant number of debates in the United Nations over the past seven years has been twisted toward economic or politico-economic controversy owing to the initiative of the Soviet bloc.

MARXIST-LENINIST BELIEFS

According to Marxist-Leninist dogma, the world is moving inevitably to a great historical climax in which capitalism will collapse and will be replaced by "socialism" (that is, communism.) Beliefs of this character are held with the tenacity of a religious faith and for a time this may be a source of strength to the Kremlin. Eventually, however, the reverse may be true. Marxist-Leninist theoreticians cannot desert their basic dogmas even in the face of a massive array of contradictory facts. Even with the present high state of prosperity in the United States they claim that we have only wretchedness, starvation and poverty here, and that our economy is doomed. While the political masters of the Kremlin have displayed great flexibility in reversing themselves on matters of secondary policy and tactics they may, as one close student has facetiously remarked, "come to grief through the hardening of their categories." Communist Party Secretary Nikita Krushchev recently re-confirmed the official party line on this subject when he stated to Chancellor Adenauer on September 15, 1955: "Your star is waning. It is the star of Capitalism. That of Socialism is only beginning but it will shine with a thousand fires."

Undoubtedly the Communists will continue to state their case for Communism as against Capitalism by flooding the world as in the past with rhetorical skullduggery and statistical manipulation. Security analysts may render valuable service by pointing out the fallacies of such propaganda. Marxist economic analyses are based upon the dialectic regarding which R. N. Carew Hunt, author and acknowledged authority on Communism, recently stated:

". . . they are handicapped by starting from certain presuppositions which are not merely working hypotheses to be discarded if subsequently ascertained facts fail to support them, but revealed truths to which the facts must be made to conform. Thus they are obliged to declare that the capitalist system is everywhere disintegrating and that the workers are increasingly exploited under it, not because there is any evidence for either, but because the dialectic requires it, so that all it does is to prevent them from looking at what they pretend to describe."

In the present post-Geneva era of the Cold War we must keep all these matters in mind and realize that this is the first conflict in history with a gearshift. Just now it is in reverse. We were in a *Zig;* now we are in a *Zag.*

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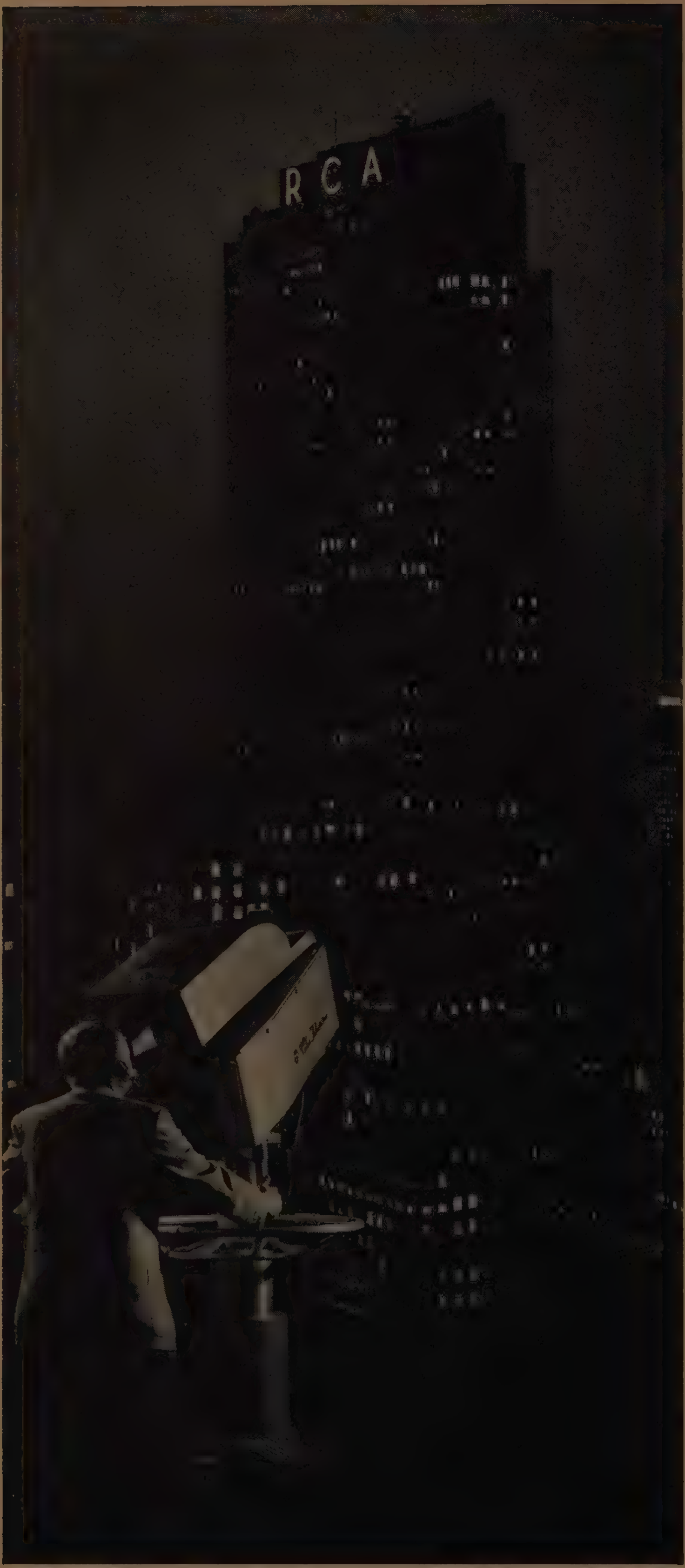
PANHANDLE EASTERN PIPE LINE COMPANY



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EXPERIENCE: RCA has been the recognized leader in radio communications since its formation thirty-six years ago. Its world-wide wireless circuits, established in 1919, and its development of electron tubes, laid the groundwork for radio broadcasting in 1920 . . . and the first nationwide radio network in 1926.

Radio broadcasting led to television—and in 1939 RCA made history by introducing black-and-white TV as a service to the public.

Dr. V. K. Zworykin of RCA invented the Iconoscope, or television camera tube, and he developed the Kinescope, now universally used as the picture tube.

RESOURCES: Pioneering and development of color TV has been one of the most challenging and expensive projects ever undertaken by private industry. To date, RCA has spent $50,000,000 on color TV research and development, in addition to the $50,000,000 previously spent in getting black-and-white TV "off the ground" and into service.

RESEARCH FACILITIES: RCA has one of the most complete, up-to-date laboratories in the world—the David Sarnoff Research Center at Princeton, N. J. It is the birthplace of compatible color television and many other notable electronic developments.

No wonder that you can turn to RCA to find all of the essentials of quality and dependability born only of experience.

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RCA®

Economic Consequences of the Rise of Russia

WALTER K. GUTMAN

THE LAST THREE YEARS may be looked upon as one of those unusually pleasant historic periods when things went better all the time. They were full of terror and uncertainty but compared to the future they may look placid, for in the future we Americans may have to face the fact that we did not win the battle with communism after all.

There are several reasons for worrying about this and what this development may do to our particular interests in Wall Street. One of these is the table printed below. This shows the record of steel production in the U.S.A. and the U.S.S.R. in two peace time periods. One was from 1929 to 1939 and the other from 1946 through 1954. The statistics are taken from the American Iron and Steel Institute.

Production of Steel Pre-War and Post-War in U.S.A. and U.S.S.R.

	Millions of Tons—U.S.A.	*Year to Year Gain %*	*Millions of Tons—U.S.S.R.*	*Year to Year Gain %*
1929	63.2	x	5.2	x
1930	45.6	Loss	6.1	20
1931	29.1	Loss	6.0	0
1932	15.3	Loss	6.4	6.5
1933	26.0	75	7.5	18
1934	29.2	12	10.5	40
1935	38.2	35	13.7	30
1936	53.5	40	18.0	32
1937	56.6	6	19.6	8
1938	31.8	Loss	20.3	4
1939	52.8	70	20.7	2
1946	66.6	x	15.0	x
1947	84.9	29	16.2	8
1948	88.6	4	20.8	25
1949	78.0	Loss	26.0	25
1950	96.8	22	30.4	25
1951	105.2	9	34.5	13
1952	93.7	Loss	38.6	12
1953	111.6	20	111.8	9
1954	88.3	Loss	45.2	8

One fact clearly shown by the table is the shift in relative power which has occurred since 1929. In that year we produced 12 times as much steel as Russia. There could be no question which country had the greater power. But in 1954 Russia produced almost half as much steel as we. We are still ahead, but they are obviously catching up. From the military point of view, it is interesting to note that Russian production in 1954 was 10 million tons greater than total Axis production at its best in World War II. Because Russia has not then developed a consumer durable goods economy of major importance it is quite possible that it is able to divert more steel toward military uses than we are without disturbing the accustomed ways of its people. From the peace time point of view, it is interesting to note that Russia has about twice the capacity now that we had in 1900. In other words, viewed as a backward country coming up in the world, Russia has the base, in tons of steel, to do in the next twenty-five years what we did in the last fifty.

OUR IRREGULAR PRODUCTION OF STEEL

But more important than that is our irregularity of production versus their steady year-by-year increase. In the twenty years shown in the table, we have gone backward seven times. Our backsliding has frequently been big. The Russians have really never gone backward. They barely held even in 1931, but otherwise each year had marked an advance. Since 1946 the year-to-year gain has never been less than 8%. If the two countries continue on the pattern established since 1929, Russia will be even with us in 15 years, ahead of us in 20.

Steel production is, of course, only one measure of economic potency. So far, it is evident, we are way ahead in auto production, roads, housing, T.V., etc., but once Russia has the basic materials there is nothing to prevent her turning these into all kinds of production.

There is every current indication that the Russians intend to win the battle for communism on the "playing fields of Eton" rather than the battlefield of Waterloo. The most important indication is Krushchev has said so, but even if he had not, there would still be plenty of signs.

RUSSIA'S NUCLEAR DEVELOPMENTS

Among these are Russia's obvious progress in nuclear developments. They are not far behind us in fission or fusion techniques for peace or war and they are admittedly ahead of us in equipping themselves for fundamental research on the atom. Since 1952, they have had more powerful atom smashing equipment than we. When one considers the long-term importance of nuclear energy, one cannot minimize the fundamental economic importance of such developments.

Another indication is in the field of education. In 1954 the Russians graduated 50,000 engineers while we graduated 22,000. Let us assume that it takes ten years to convert a graduate into an experienced engineer. This means that in 1964 Russia will have more than twice as many experienced engineers of a certain desirable degree of experience and age level as we. Let us suppose that this ratio of better than two to one continues ten years from now into 1964. This means that in 1974 Russia will have twice as many engineers in the senior experience level and twice as many in the younger but seasoned experience level. Those engineers who have made American industry predominant now will be ancient or dead by 1974 and Russia will almost inevitably be ahead of us industrially because of the simple reason that she has far more technically trained people.

THE POLITICIANS AWAKENING

Figures like these have been in the technical papers of our country for quite some while, but little attention has been paid to them. Apparently what our politicians saw at the Geneva Conference has finally awakened them to the grim fact that communism is getting places from the material point of view. The educational advances of the Soviet Union are now being aired in our mass circulation media. But changing an educational system is not easy. There are probably basic reasons why we have fallen behind in our technical education. One is that our main standard of selection as to who gets educated and who does not—is money.

WHO GOES TO COLLEGE?

The problem is recognized but the solution is not at hand. Half our high school graduates who have proved their intellectual qualifications by being in the top 25% of their class fail to go to college. Three foundations—Ford, Carnegie, and Sears, Roebuck—have put up a major part of a $21 million scholarship fund which will send 350 out of thousands to the Ivy. If private enterprise is to solve its engineer student problem this way, it will have to raise over $2 billion. In other words, the capital needed to provide the income required to go to college for a year is $60,000. The nation could easily provide the added capital, but private industry working with the disunity of voluntary effort is unlikely to acquiesce. On an annual income basis, the problem is really very simple. It would require only $90 million to put 30,000 students through technical colleges providing there were an additional 30,000 who wanted to go. But our national philosophy is such that we are very unlikely to solve this simple economic problem shortly.

MONEY HAS PRESTIGE

Money has many subtleties. Because of this, the national attitude has not been too favorable to long-haired thinking. Many mothers pray that their children turn out to be salesmen, since in our country salesmanship seems to pay off best. It is no secret that our teachers have to take several jobs, such as being a mailman in the summer or working in a garage after classes in order to make ends meet. According to Admiral Strauss, there are scholarships in nuclear physics which cannot be filled for lack of applicants. It is not unusual to see a gifted scholar in languages or science go to all the trouble of getting a high grade in his major and then enter ordinary business. What for? Because money has in our country not only purchasing power but prestige. Money has prestige in Russia too, but apparently in Russia teachers and scientists are relatively well paid. Russian mothers, being just as practical as American, apparently want their children to become intellectuals because it pays off.

What does this mean? It means that the communist social organization has been preparing a sound broad base for long term industrial advance. Our American preeminence, to a large extent, is the result of the educational idealism of past generations. America once had the finest school system in the world. The average American boy or girl once had a better chance of going to college than the average youth elsewhere. What was done right in 1875 and 1900 showed up in 1900 and 1925.

The effects of basic Russian industrial progress will be seen long before twenty-five years have gone by. In fact they have already been seen. All the Western statesmen who have gone to Moscow this summer have come back educated. They have found, as Chancellor Adenauer said, that Russia really is one of the most powerful countries in the world. The communist state does not rest, as so many have wishfully thought, on feet of clay. Instead it rests on feet of powerful technical achievement. Given a period of peace, this is bound to become more evident. As Russia's young engineers gain experience and spread through its industry, as a greater proportion of communist Gross National Product is directed toward civilian activities, the Russian standard of living is bound to rise. It is bound to become equal to those of our smaller and less powerful allies.

THE ECONOMIC EFFECT

It will have an economic effect which in certain ways will be salubrious for everyone. If we accept Russia as a rapidly rising industrial power of the first magnitude, we must realize that Russia will do much the same thing for world economics of the next fifty years that America did for world economics of the last century. It is not possible for Russia to become more powerful industrially without directly and indirectly stimulating the economies of the whole world. Russia is bound to become a market for somebody's rubber, somebody's wool, somebody's special machinery, and this new additional market could be just enough to balance off declining tendencies elsewhere.

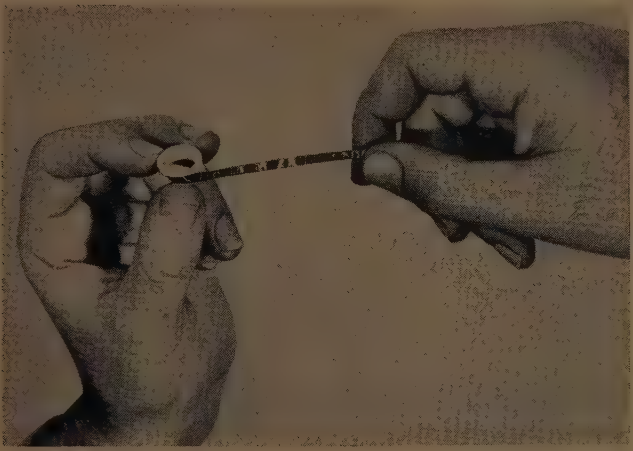
INFLATIONARY TENDENCIES IN THE WORLD

The general effect of the rise of communist economics is inflationary. If we assume reasonably stable capitalist economic progress and dynamic communist progress we have to assume a general inflationary price tendency. If we assume both economies will advance dynamically, then inflationary pressures should be very strong.

The question is, though, how can capitalist economies advance dynamically in a strongly inflationary period and still remain free economies? This brings me around to my opening sentence. The first three years of the Eisenhower administration may in retrospect look as charming as Queen Victoria. The free capitalist economies of the West are already battling with inflation. They are using the classical tools of money management to do it. They are thinking along the lines of 1929 and 1937, in which there was one great concentrated economic force and that was America. They are trying not to make the mistakes of the past.

ADAPTATIONS OF TECHNIQUES

But there is a new force in the East, a force we do not like, but it lives anyway and is growing rapidly. This force has different virtues and different faults than ours. We have learned to recognize it politically and militarily, now we must learn to adequately recognize and deal with it economically. This may require substantial adaptation of techniques and general philosophical attitudes. The communists, for instance, do not admit that economic cycles are an essential part of the pattern. We, however, believe that some cyclical variation in production is inevitable. Our credit system and the relation between expansion and contraction of this system, or even the variation in the rate of expansion, make this almost inevitable. One of the worldwide problems of the West will, therefore, be to deal with the tendency toward price inflation which a steady pulse development of communist economies are likely to induce in western economies. Another problem is to match the average rate of advance of a steady system with the dynamics of a variable system. It is a race between a bouncing hare and what now appears to be a fairly rapidly moving tortoise. The hare will have to grow wise to win.



This special steel never forgets

YOU may have trouble recalling facts, but this Armco Special Steel can remember in a split second!

It's part of an electronic brain. Once a "fact" is electrically stored on this slender metal ribbon, it can be remembered in a few millionths of a second. From hundreds of such stored "facts" the machine solves long and complicated problems in amazingly little time. Its job is to remember *fast* and never forget.

Sixteen ribbons of this magnetic alloy, pressed together, would be no thicker than a human hair. A pound in the width used would extend three miles. The most precise techniques are needed to roll this tough steel so thin.

Armco is one of the leading producers of "memory" ribbons for electronic computers. Research is a big part of the reason why.

Armco is constantly searching for new and better special steels for new and better products. This persistent search—and the expanding markets for our steels that result from it—has been a major factor in Armco's steady growth.

ARMCO®

ARMCO STEEL CORPORATION
MIDDLETOWN, OHIO

SPECIAL STEELS

SHEFFIELD STEEL DIVISION • ARMCO DRAINAGE & METAL PRODUCTS, INC. • THE ARMCO INTERNATIONAL CORPORATION

COLUMBIA GAS SYSTEM

THE COLUMBIA GAS SYSTEM, INC.

The Board of Directors has declared this day the following final dividend for 1955:

Common Stock
No. 85, 30¢ per share

payable on November 15, 1955, to holders of record at close of business October 20, 1955.

DALE PARKER
Secretary

September 21, 1955

Safeway Stores,
Incorporated

World's Second Largest Retail Food Concern

Half Year Business Briefs

Safeway's total net sales for the first 24 weeks of 1955 set an all time high.

At mid-year 2011 Safeway Stores were in operation in the United States and Canada. The average weekly per store sales for the 1,868 United States stores was $18,014. Canadian per store weekly average for their 143 stores was $18,534.

In the opinion of Management, Safeway's long range prospects are excellent. Sales and profits are expected to benefit materially from the Company's construction program, which calls for completion of two or three high volume, low operating cost retail stores per week.

FIGURES

Comparison of first 24 weeks of 1954-55

	June 18, 1955	*June 19, 1954*
Net sales . .	$887,210,738	$821,863,404
Net income (after all taxes) .	5,553,500	6,615,971
Total net assets . .	168,017,753	165,847,270
Total current assets . .	287,650,991*	246,826,572
Total current liabilities .	156,733,595*	132,778,901
Earnings per share on Common Stock—after deducting preferred dividends .	$1.29	$1.76
Book value per share of Common Stock	$32.40	$31.73
Average number shares Common Stock outstanding	3,489,184	3,369,521
Number of stores in operation	2011	2016

**Ratio of current assets to current liabilities as of June 18, 1955 was 1.84 to 1.*

Safeway Stores, INCORPORATED
4th and Jackson Streets • Oakland, Calif.

Some new "records" in West-Central Ohio!

These are the records that Dayton Power and Light Company's gas division will set this year. During 1955 our gas customers will increase in number by 7%. And by year's end, we will have installed 150 miles of new distribution mains. (*In addition, we've added 50 miles through purchase of The Lake Gas Co.) Records like these are music to our ears!

The Dayton Power and Light Company
25 North Main Street • Dayton 2, Ohio

The Dayton Power and Light Company
The Symbol of Service
OVER 200 MILES* OF GAS DISTRIBUTION MAINS ADDED
The Dayton Power and Light Company
The Symbol of Service
OVER 11,000 NEW CUSTOMERS ADDED

Preferred Stocks—
They Can Be Attractive Investments

S. H. BALLAM JR.

"IT WERE NOT BEST that we should all think alike; it is difference of opinion that makes horse races." Samuel Clemens' words are certainly applicable to investors' attitudes about preferred stocks. Any discussion of preferreds is almost certain to produce a controversy and the old bromide that they are "neither fish nor fowl." How many investors have actually taken time to seriously analyze the record and performance of preferred stocks in order to arrive at their own conclusion?

One should consider objectively the case for preferred stocks. In many instances this may call for the laying aside of old prejudices and personal feelings. It therefore could be a real exercise in security analysis with complete lack of bias. The reason for the analysis is to ascertain if preferreds may be used profitably in most portfolios. It seems obvious that they should.

THE POSITION OF PREFERRED STOCKS

Admittedly preferreds are a hybrid security. The charge of "neither fish nor fowl" cannot be refuted. Corporations agree to pay preferred stockholders a fixed rate of return, but provide no legal redress, such as bondholders enjoy, if the payments are not made. The preferred certificate is an evidence of ownership in the business, but unlike common stock does not permit unlimited participation in the profits. Thus their position in the corporate structure involves an inherent weakness which most investors recognize.

Preferred stocks, as a financing medium, do not have much appeal to corporations which want to provide maximum income for common stockholders. Table 1 shows the merits of issuing bonds compared to that of selling preferred stocks to provide $10 million for corporate purposes.

One important advantage of preferred stock over bonds, to an issuing corporation, is the fact that failure to pay preferred dividends cannot result in bankruptcy for the corporation such as failure to pay bond interest might produce. From the investor's viewpoint it seems important to observe that this advantage accrues to the corporation and not to the investor. In 1955 over $800 million was raised by corporations through the sale of new preferred issues. On the other hand, many corporations redeemed their preferred stocks with funds raised through the sale of bonds. The possibility that corporate tax rates will continue at approximately present levels is a strong incentive for other managements to replace their preferreds with debt.

Preferred stocks have been adorned with many features to make them more palatable to investors, such as dividends usually being cumulative. Restrictions are frequently included concerning the issuance of debt, and other "fringe type" features may be included. To meet the important objection of the lack of a maturity, many preferreds are made convertible into common stock or else have a sinking fund feature providing for their retirement, within fifty years. Such features cannot improve the quality of an issue, although they may increase the attractiveness of the preferred for some investors.

AVAILABILITY OF PREFERREDS

Despite the inherent weakness of preferreds and their limited appeal as a financing medium, there are about $16 billion of preferred stocks outstanding. The 456 preferred issues listed on the New York Stock Exchange on December 31, 1954 had a market value of $8.4 billion. An examination of the trading volume of 200 hundred of these issues, representing about 65% of the market value of preferreds listed on the Exchange, indicated an average turnover of about 5% in 1954. There was an inverse relationship between quality and the amount of trading on the Exchange. There is likewise extensive trading of pre-

Table 1
Bond vs. Preferred Financing

Income Statement	$10,000,000 3% Bonds	$10,000,000 4% Preferred
Assumed earnings before interest and Federal Income Taxes	$ 1,000,000	$ 1,000,000
Deduct: Interest Charges	300,000	. . . . . .
Net Income before Federal Income Taxes	$ 700,000	$ 1,000,000
Deduct: Federal Income Taxes @ 52% rate	364,000	520,000
Net Income available for dividends	$ 336,000	$ 480,000
Preferred Dividends	. . . . . .	400,000
Balance available for common dividends	$ 336,000	$ 80,000

ferreds off the Board, and the large traders are inclined to restrict their trading positions to those issues which have general market appeal to institutional investors. Trading in the other issues tends to gravitate to the Exchange accounting for a higher turnover on the Exchange of lower quality issues.

The large amount of preferreds outstanding proves their attractiveness to many institutional investors. Buyers of these issues include fire and casualty companies, life insurance companies, trust companies, savings banks, investment trusts and pension funds. This gives rise to the question of why investors use preferreds and others abhor them? What quality standards will assure good performance? How about the timing problem — the relationship of preferred yields to bond yields and the money market? All these questions must be answered satisfactorily before an investment is made in a preferred stock.

QUALITY STANDARDS FOR THE SELECTION OF PREFERREDS

Generally speaking high quality preferred stocks will provide about 1% more income than bonds of comparable quality. Of course medium grade preferreds and speculative preferreds produce a greater return. The latter two categories have done rather well in the postwar period with few dividend omissions because of the high level of business activity and absence of periods of financial stringency. Analysis of the long term record of preferred stocks, however, indicates the danger of compromising quality standards. The preferred dividend omissions during the 1930's were principally among those issues which had poor dividend protection, an unbalanced capital structure or were in cyclical industries. High grade industrial and public utility preferreds came through this difficult period with an excellent record. People who seek a few extra basis points in yield should again review this period.

Since preferred stocks are fixed income securities, they should be compared with bonds and not common stocks. Furthermore, the quality should be sufficiently high so that there is no question about the continuity of income. If preferred purchases are restricted to such issues, then the risk involved is limited to changes in the money market. An extensive analysis of the market performance of the 200 preferred issues previously cited resulted in the derivation of two principal statistical criteria for selection of quality preferred stocks. First, guides based upon earnings protection and, second, guides based upon capitalization ratios.

CATEGORIES OF PREFERRED STOCKS

Preferreds may be listed in the three conventional categories: industrials, utilities and rails. The industrial group includes a very broad range of companies engaged in activities of varying cyclical amplitude. The following guides would have assured investors of the selection of only quality issues. Such issues should have average *overall* dividend coverage including fixed charges during the previous six years of at least six times and a minimum coverage during that period of at least four times. These guides are predicated upon preferred performance during the past ten years and earnings in the highly prosperous postwar period. Obviously, they should not be rigidly applied in selecting preferred issues, but must be tempered with good investment judgment. One would not reject an issue with an average coverage slightly less than six times if the trend were steadily improving and other factors appeared favorable. Likewise a low coverage of two or three times in one year might be acceptable if it were caused by some unusual, non-recurring factor such as a strike the settlement of which may have resulted in a basic improvement in labor relations. It might be advisable to compromise these standards in selecting preferreds of companies with erratic or highly cyclical earnings records.

Electric utility preferreds do not require as full statistical coverage as industrial preferreds because of the inherently stable nature of utility earnings. An average over-all coverage of two and a half times with a minimum of two times will result in the selection of good quality issues. Stocks of gas companies should probably have a somewhat higher coverage. In the case of all utilities it is sound practice to check the company's rate of return based on present earnings. If the return seems excessive, it is prudent to recompute the coverage on a lower rate of return which might possibly be forced upon the company in the future. Purchase might still be made if satisfactory protection is provided by the adjusted earnings.

There are only a limited number of railroad preferreds available. Only those having approximately the same coverage as recommended for industrial preferreds ought possibly be purchased as fixed income securities.

CAPITALIZATION RATIO USEFUL GUIDE

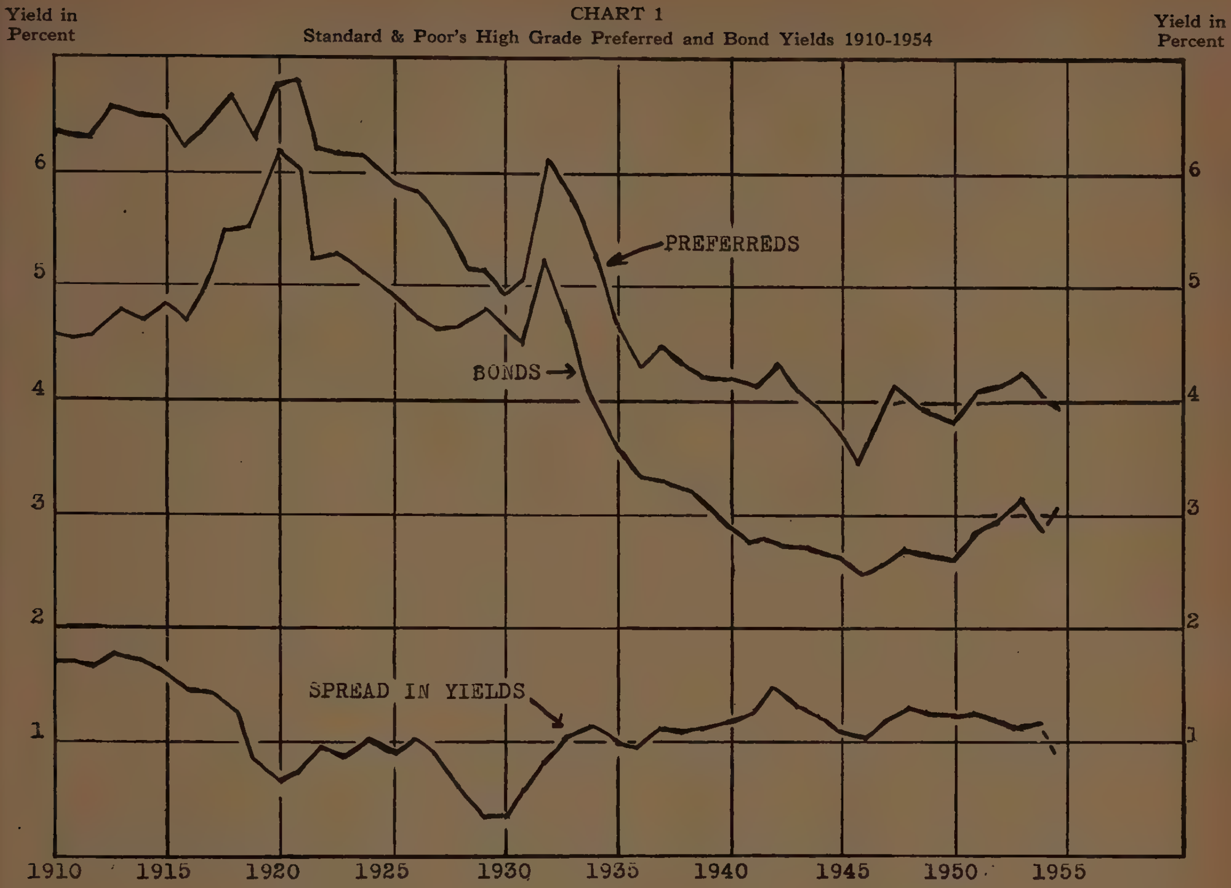
A second useful statistical guide in selecting high quality preferreds is the capitalization ratio. For industrials the market value of the common should normally be about 70% of the total capitalization. At the present level of the stock market the common equity should probably be at least 75%. A highly volatile common stock will obviously change the ratio. The principal usefulness of this guide is to restrict preferred investment to the issues of soundly capitalized companies. Those companies which have too much debt and insufficient common equity are usually the first to get into financial difficulty. They are likely to have the least resistance to adverse business conditions. A lowering of this capitalization guide can be justified only in the light of an unusually stable earnings record or a willingness of the investor to accept the risk involved in purchasing a lower grade fixed income security. Public utility preferreds do well to have a common equity of at least 30% of net assets.

Analysis of the 200 individual issues indicate a high degree of correlation in the application of these two statistical guides. Those preferreds which meet the coverage standards also usually meet the capitalization guide. In applying these standards in a flexible manner a very high earnings coverage could compensate for a slight deficiency in the capitalization ratio.

In addition to statistical measures, it is necessary to examine the industry in which the company operates and to evaluate the company's position in the industry. The record and ability of the management must be reviewed particularly for evidence of retrogression. Higher statistical

CHART 1

Standard & Poor's High Grade Preferred and Bond Yields 1910-1954



protection is of questionable value as an offset to weak and inefficient management over the longer term.

A fixed sinking fund is a desirable feature since it assures the eventual redemption of the issue. However, it ought not be regarded as an important market factor in the early years to sustain the price of the stock if it is only 2%, as are most sinking funds. A conversion feature may also be quite desirable, but investors should not pay much of a premium for this feature, for the greatest number of convertible preferreds are issued near the peaks of bull markets. Naturally such issues are not as attractive as convertibles purchased when the outlook for stock prices is less optimistic.

TIMING OF PURCHASES

One reason that preferreds have disillusioned investors has been the decline in value resulting from poor timing of purchases.

The Securities and Exchange Commission has compiled figures since 1934 showing the amount of preferred stocks offered for cash each year. These figures show that corporations in 1946 realized over $1.1 billion dollars from the sale of new preferreds, as much as had been raised in the seven-year period from 1934 to 1940. There never was a more favorable period than 1946 to sell preferred stocks, nor a poorer time for investors to buy preferred stocks. Corporations sold preferred stocks with dividend rates as low as 3¼% and a great many were marketed with rates of 3½%. Investors purchased medium and lower quality isues during this period with dividend rates of 3¾% and 4% because they provided a "living return" in a 3½% preferred market.

Preferreds have not done as well marketwise from 1946 to 1955 as common stocks. They should not be purchased in lieu of common stocks but as substitutes for bonds. They are fixed income securities and if quality standards are maintained in selecting preferreds there will be no question about the continuity of this income. The effect of changes in interest rate upon preferred prices is shown in Table 2.

The purchase of any fixed income security is predicated upon the investor's appraisal of the level of interest rates and the outlook for the money market. In operating a bond portfolio it is often possible to space maturities and provide some protection against the changes in interest rates. Moreover, a bond with a low interest rate purchased during a period of easy money will be redeemed at par when it matures. A preferred stock with a 3½% dividend rate will not sell at 100 unless there is a return to a 3½% preferred market.

Chart 1 shows Standard & Poor's High Grade Preferred

Table 2
Effects of Interest Rate Changes on Preferred Prices

	Preferred Dividend Rate			
	$4	$3.75	$3.50	$7
Assumed issue price	100.00	100.00	100.00	175.00
Price if interest rates rise ¼%	94.12	93.75	93.33	164.71
Price if interest rates rise ½%	88.89	88.24	87.50	155.55
Price if interest rates rise ¾%	84.21	83.33	82.35	147.37
Price if interest rates rise 1%	80.00	78.95	77.78	140.00

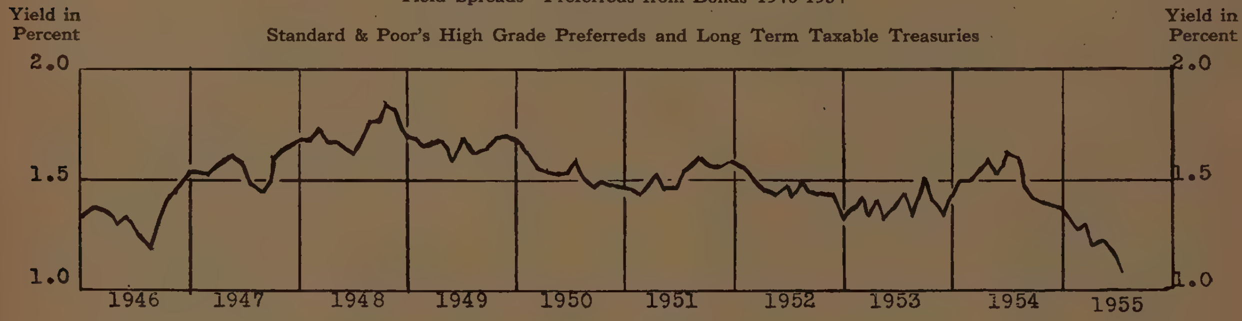
and High Grade Bond Yields from 1910 to date. This chart is based on annual plottings, but gives a perspective of the long term trend of interest rates and the spread in yields between preferreds and bonds over 45 years. An examination of this chart indicates that during the past twenty years, except for the 1945–47 period of extremely easy money, preferred yields have hovered around the 4% level. This index in recent years has consisted exclusively of non-callable preferreds.

Moody's Investors Service has compiled yield figures for high grade, low dividend preferreds since 1946. A comparison of these yields and high grade non-callable preferred yields during the past ten years indicates that the low dividend issues usually provide about 15 to 20 basis points less income. Investors are willing to accept the lower return from a 3½% issue selling at 95 than a comparable quality 7% issue selling at 180.

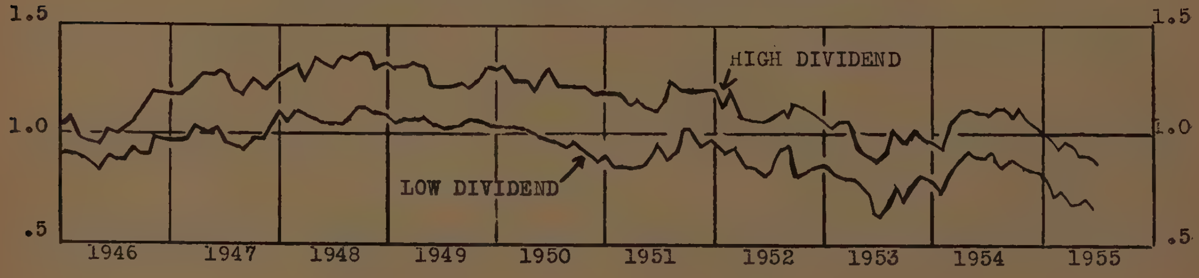
Chart 2 shows the spreads which have prevailed during

CHART 2
Yield Spreads—Preferreds from Bonds 1946-1954

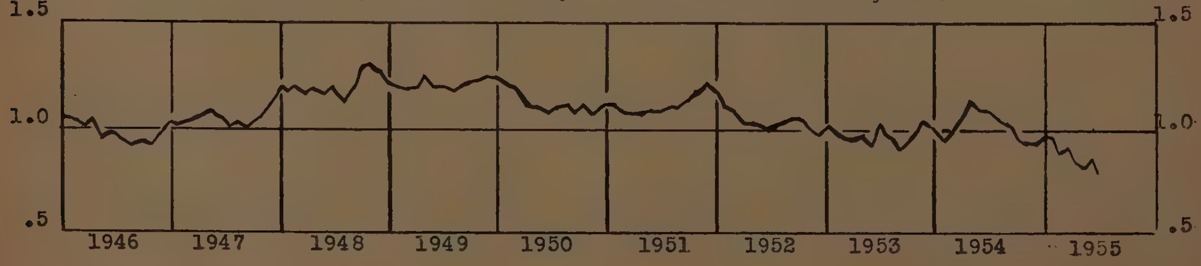
Standard & Poor's High Grade Preferreds and Long Term Taxable Treasuries



Moody's High Grade Industrial Preferreds and Aaa Industrial Bonds



Moody's High Grade Public Utility Preferreds and Aaa Public Utility Bonds



the postwar period between the yields of preferreds and bonds. The plottings are monthly. The constancy of these spreads attests to the attractiveness of high quality preferreds as substitutes for bonds. However, it is also apparent that preferreds at times as in 1948 are more attractive than at the present in comparison with bonds. It will be noted that each of these four series has an amplitude of about 25 basis points, which is equivalent to approximately 6 points of market value of a preferred stock.

Since a forecast of the outlook for money rates is implicit in the purchase of a preferred, one might conclude that preferreds cannot be bought if the outlook is for a higher level of interest rates. A rise in interest rates results in a decline in market value of a fixed income security and purchase under such conditions is equivalent to acquiring a certain loss. Yet even under these conditions it is still possible to obtain some preferreds with assurance. These preferreds as a group are usually referred to as "cushion" preferreds. They include issues such as General Motors $5 Preferred, Hercules Powder 5% Preferred, and Sun Oil 4½% Preferred. All these stocks would be selling at substantially higher prices than the current market value but are restrained by the possibility of a call. For instance, General Motors $5 Preferred should be selling at 133 to produce the same return as that currently provided by the equally ranking General Motors $3.75 Preferred. However, the $5 Preferred is callable at 120 and investors are not willing to pay more than a limited number of points over call. The "cushion" of eight points (the difference between the present market price and the price at which the issue would sell if not inhibited by the call factor) affords the investor protection against a further rise in interest rates of about ¼%. One is apt to weigh this "cushion" against the possibility that the issue will be redeemed, thus resulting in a loss of a few points.

If there is a long term upward trend of interest rates preferred stocks should not be purchased. If the investor feels that interest rates will rise further over the short term, he should defer his purchase until satisfied that interest rates will level and become stable or else begin to decline. He might consider purchasing "cushion" preferreds. If the outlook is for declining interest rates investors may purchase any high quality preferreds which are below their call prices and which will be able to show some appreciation before the call price becomes a limiting factor.

Newport News Shipbuilding and Dry Dock Company

Quarterly Statement of Billings, Estimated Unbilled Balance of Major Contracts and Number of Employees

Billings during the period:	**Three Fiscal Months Ended Sept. 26, 1955**	**Three Fiscal Months Ended Sept. 27, 1954**	**Nine Fiscal Months Ended Sept. 26, 1955**	**Nine Fiscal Months Ended Sept. 27, 1954**
Shipbuilding contracts	$19,556,616	$26,405,038	$66,723,945	$85,443,201
Ship conversions and repairs	4,380,357	1,521,838	9,683,648	18,750,650
Hydraulic turbines and accessories	1,566,334	1,803,816	6,512,980	4,586,431
Other work and operations	2,271,883	3,754,957	10,377,813	10,158,002
Totals	$27,775,190	$33,485,649	$93,298,386	$118,938,284

	At Sept. 26, 1955	**At Sept. 27, 1954**
Estimated balance of major contracts unbilled at the close of the period	$150,851,426	$198,608,480
Number of employees on roll, including furloughed and part time employees, at the close of the period	12,268	13,989

The Company reports income from long-term shipbuilding contracts on the percentage-of-completion basis; such income for any period will therefore vary from the billings on the contracts. Contract billings and estimated unbilled balances are subject to possible adjustments resulting from statutory and contractual provisions.

By Order of the Board of Directors
R. I. FLETCHER, *Financial Vice President*

October 26, 1955

A forward step

Union Electric consolidates separate corporations in Missouri and Illinois

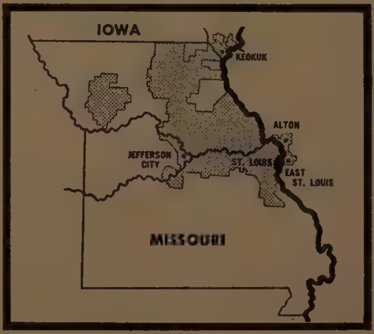
A recent amendment to the laws of Illinois has enabled the Union Electric System to simplify its corporate structure. On August 31, 1955, the Union Electric Power Company, which operated in Illinois and Iowa, was dissolved and its property and business taken over by the parent, Union Electric Company of Missouri, thus removing needless corporate complexities and resulting in a more efficient basis for system operation.

Investors in Union Electric bonds have acquired direct security in the System's physical assets located in Illinois and Iowa. The consolidation makes for more flexibility in the use of cash working capital and frees some funds for the System's expansion program.

This move also should enable the Union Electric System to be better understood by the public in both states and by its investors—another forward step in progress for Union Electric.

Union Electric System

Comprising Union Electric Company of Missouri • Missouri Power & Light Company • Missouri Edison Company • Union Colliery Company • Poplar Ridge Coal Company • St. Louis & Belleville Electric Railway Company



Institutional and Individual Participation under the SEC's Shareholder Proposal Rule

FRANK D. EMERSON

TODAY'S UNPRECEDENTED CONCERN over shareholder solicitations of proxies in proxy contests for control of publicly held corporations and over shareholder solicitations for representation on their boards of directors makes especially timely inquiry into the other principal means by which shareholders may participate in corporate affairs. More specifically, what was the experience during 1954 and 1955 to date under the Securities and Exchange Commission's amended shareholder proposal rule, Rule X-14A-8? Again, is substantial progress being made under the amended shareholder proposal rule toward the objective of corporate or shareholder democracy?

ANALYSIS OF SHAREHOLDINGS

Since publication in 1952 of the Brookings Institution's study of share ownership in the United States, prepared at the request of the New York Stock Exchange, it has been quite widely known that the Brookings study estimated that there were more than 6.5 million shareholders in the United States. Not so widely known, but also revealed in the Brookings study, is the fact that the third largest holder of common shares was the investment companies, the insurance companies, and other similar holdings of businesses by other businesses. Moreover, the investment companies, insurance companies, and other businesses were indicated as owning over 471 million common shares, or more than 13% of total common shares. While the New York Stock Exchange recently announced that the figure of 6.5 million shareholders as of the close of 1951 had increased to 7.5 million shareholders by the close of 1954, a gain of more than 15%, no statement was made regarding the percentage of shares held by investment companies, insurance companies, and other businesses as of the close of 1954.

No recent development, however, has suggested that there has been any substantial decline in the over 13% business-ownership of businesses position held at the close of 1951, and presumably therefore investment companies, insurance companies, and other businesses continued through 1954 and to date to be substantial common share holders of publicly held companies. And the circumstance that the extent of insurance companies' holdings of or investments in common stocks are generally restricted by state law, also continues to make it likely that a large part of the approximately 13% business ownership of common shares is in fact investment company ownership.

INSTITUTIONAL PARTICIPATION IN CERTAIN SHARES

In an article published in the November 1953 issue of *The Analysts Journal* the writer drew attention to the fact that, while investment company common stock ownership approached 13%, shareholder proposals generally beneficial to investors in 60% of the then known instances were drawing a less than 8% favorable vote. It was also shown that that nation's largest investment companies owned in the aggregate more common shares in Atchison, Topeka & Santa Fe R.R., Marine Midland Corporation, Middle South Utilities, and Rochester Gas and Electric Corporation than were voted in favor of the shareholder proposals carried in these four companies' 1952 proxy statements. The situation was worse in 1953, for in that year it was found that the country's largest investment companies owned in the aggregate more common in Rochester Gas and Electric, Marine Midland Corporation, Southern Pacific, Florida Power & Light, Atchison, Topeka & Santa Fe, and du Pont than were voted in favor of shareholder proposals carried in these six companies' 1953 proxy statements. In several of these instances single investment companies were shown in both 1952 and 1953 as holding more shares than were voted in favor of 1952 or 1953 shareholder proposals submitted to one or more of these ten companies. Therefore it became clear that either the investment companies were voting against shareholder proposals, returning unmarked proxies, or abstaining from voting. Seemingly the investment companies' "apparent dismal failure, particularly in view of their unusual opportunity for informed leadership, is immeasurable." We cautioned against either repeal of the shareholder proposal rule, as had then just been advocated by the American Society of Corporate Secretaries, or the increase of its resubmission requirement or other restrictive change in the rule, as then proposed and later effected by the present SEC. This data, Senatorial concern over proxy contests, and the fact that the investment companies are apparently the nation's largest institutional shareholder, makes their activities and behavior respecting 1954 and 1955 shareholder proposals a matter of vital continued interest to the public shareholder and to the security analyst.

INVESTMENT COMPANY SHAREHOLDER PARTICIPATION

As of December 31, 1953, the total assets of investment companies amounted to $7 2/3 billion. The twenty largest open-end and the thirteen largest closed-end investment companies as of the same date had assets of over $5¾ billion, or 77% of total investment company assets. Consequently, the holdings of these thirty-three largest investment companies in the fifty-two companies whose 1954 proxy statements carried shareholder proposals afford considerable insight into the position of investment companies in the fifty-two companies. In addition, comparison of their holdings with the shares cast in favor of shareholder proposals provides answers to the question, were investment companies in 1954, as in 1952 and 1953, failing to vote for proposals of benefit to shareholders, including both shareholders generally and indirectly their own shareholders as well?

INVESTMENT COMPANY HOLDINGS

At the close of their 1953 fiscal or calendar year, recognized corporate statistical services found investment companies in the aggregate as owning more shares in twelve companies — Air Reduction Co., Inc., American Can Co., American Gas & Electric Co., American Viscose Corp., Atlas Powder Co., Bethlehem Steel Corp., Canada Dry Ginger Ale, Inc., Corn Products Refining Co., Dow Chemical Company, Marine Midland Corp., New England Electric System, and Southern Pacific Co.—than were voted in favor of the shareholder proposals carried in their 1954 proxy statements. One investment company alone, Boston Fund, Inc., owned 17,100 Atlas Powder common, but shareholder proposals by Hyman Markowitz for cumulative voting, summary post meeting report, and two liberalizations of its employee pension plan drew but 14,247, 10,411, 8,489, and 8,840 shares, respectively, or from 1.9 to 3.3% of the shares voted. Three of Mr. Markowitz' proposals, moreover, did not receive the requisite 3%, and therefore could not be resubmitted to shareholders in 1955.

SHAREHOLDER PROPOSALS

The shareholder proposals under consideration at the other eleven companies were for the most part no less conventional than the four Mr. Markowitz submitted to Atlas Powder's shareholders. The offer to Bethlehem was for an annual meeting in New York City instead of Wilmington; regional meetings were sought at Southern Pacific; director stock ownership, Marine Midland Corp.; post meeting report, Dow Chemical and New England Electric System; $25,000 management pension ceiling, Viscose and Southern Pacific; abolition of the stagger system, American Can Co., Bethlehem, and Corn Products Refining Co.; shareholder pre-emptive rights, American Gas & Electric Co.; five-year and three-year retention of stock acquired under stock gift and option plans, Air Reduction Co. and Canada Dry Ginger Ale, Inc.; shareholder election of auditors, Dow Chemical; and assistance in shareholders' small odd lot transactions, New England Electric System. The twelve companies were the subjects of nineteen proposals, slightly more than half of which, or ten, were made by Lewis D. and John J. Gilbert, America's leading minority shareholders. Each of these nineteen 1954 proposals was, of course, defeated, and each received, as indicated, fewer votes than shares owned in the aggregate by the investment companies.

THE VOTE FOR INTENTIONS

With investment companies and other institutional fiduciaries not only providing no significant shareholder leadership but investment companies failing repeatedly to vote for shareholder proposals, a continued small vote in favor of shareholder proposals becomes considerably more understandable. But, again, even the full mathematical extent of the failure of the investment companies to support shareholder proposals cannot be measured. Massachusetts Investors Trust, the nation's largest investment company, with assets of $523 million, owned large blocks of common in eleven of the fifty-two companies whose 1954 proxy statements carried shareholder proposals. Similarly, Investors Mutual and its affiliate, Fundamental Investors, owned blocks of common in fifteen of the fifty-two companies. Diversified Fund and its affiliate, Fundamental Investors, owned blocks of common in sixteen of the fifty-two companies.

In commenting in the November 1953 *Analysts Journal* on the 1952 and 1953 performance of investment companies as shareholders, mention was made of the "investment companies' apparent dismal failure, particularly in view of their unusual opportunity for informed leadership." Their doubly poorer participation in 1954 suggests that harsher terms might well have been used, and also has prompted the writer to mail a form letter and check sheet to the nation's thirty-three largest invesment companies regarding their 1954 non-participation behavior in an effort to develop more specific data. Someone during 1954 suggested that the investment companies "may well argue in their defense that they can and do accomplish more by informal behind-the-scenes discussions with managements than by open participation in controversies" or apparently as some imply even than by privately voting their proxies in favor of shareholder proposals generally beneficial to shareholders. Accordingly, to meet these assertions three principal items of information were sought to be developed by the writer from the thirty-three largest investment companies with reference to their 1954 shareholder inactivity.

INVESTMENT COMPANY QUESTIONNAIRES

Each of the thirty-three investment companies was asked to indicate whether their proxies were voted "For," "Against," "Unmarked," or "Not returned" with respect to the shareholder proposals carried in the fifty-two companies whose 1954 proxy statements contained a shareholder proposal, assurances of confidential treatment if desired being extended. Seondly, the thirty-three investment companies were invited, particularly if for some reason they should be unwilling to provide even on a confidential basis specific data regarding the disposition of their proxies, to furnish "a general statement of your policy with reference to voting on shareholder proposals." Thirdly, a request was made for "Any general comments you may have on investment company-shareholder participation in corporate affairs by means of proxies, negotiation, or otherwise."

Sixteen of the largest open-end investment companies, with aggregate assets amounting to 76% of total assets of the twenty open-end companies, responded in one way or another to the request for information. Ten stated specifically how their 1954 proxies had been voted, namely, that six in every instance, except one in which their proxy was not returned, had voted against shareholder proposals, and that the other four had returned all their proxies to management unmarked, with the result, of course, that the unmarked proxies were all voted against the several shareholder proposals. Six of the sixteen responding open-end investment companies, while not willing to state specifically how they voted, even on a confidential basis, provided general statements of policy.

POLICY OF SOME VOTES

Two of the six open-end companies submitting general policy statements indicated that their policy was to vote with management, and therefore against shareholder proposals. Another, that the greater number of shareholder proposals had not been in the best interests of the company and so had not been supported. Another qualified a similar statement with the comment that it did not, however, consider that management should be allowed a vested interest. Two statements of general policy asserted simply "case by case" and "best judgment" consideration of each shareholder proposal.

The sixteen responding open-end investment companies made no substantial claim to efforts by negotiation or otherwise on behalf of shareholders, apart from voting, not marking, or not returning their proxies. Only one advised of having had "discussions" with management, they sold their stock, thus indicating essentially no "other" action, except blindly adhering to the antiquated, so-called "Wall Street rule," and one earlier instance of use of the "sanction" of withholding proxies from management but no giving of any proxies to support shareholder proposals.

Responses were received from closed-end companies with aggregate assets of approximately 54% of the total assets of the Nation's thirteen largest closed-end companies. These companies were evenly divided between the practice of either voting against or not returning proxies relating to shareholder proposals. Half of those who replied advised, in addition, of a general policy of supporting management, and also of selling their stock pursuant to the so-called "Wall Street rule," if they were dissatisfied with management. None made any claim to negotiation, discussion, or other efforts with management in the interests of shareholders generally or their own shareholders.

As in all preceding years, no shareholder proposals were made by any investment company in 1954.

In January of this year *The Corporate Director* found what it regarded as "cause for concern" over recent proxy contests and came to the conclusion that "the great investment trusts, pension funds, and similar organizations" were responsible.

INDIVIDUAL SHAREHOLDER PARTICIPATION

It is not meant to infer that the present SEC has been idle in adverting to the non-participation by investment company and SEC inaction concerning them. In September 1953 mention was made by the present SEC's then chairman of an intention to amend the shareholder proposal rule, Rule X-14A-8. Formal announcements were made of specific suggestions for amendment in October 1953, and in December 1953, following demands of representatives of the individual public shareholder the first administrative, public hearings in the entire history of the proxy regulation were held. They were preliminary to the imposition in January 1954 upon shareholders of numerous restrictions on the shareholder proposal rule.

The rule of January 1954, frequently called the shareholders' bill of rights, gave a security holder the privilege of obligating management to include in the management's proxy statement his shareholder proposal, provided it was as a matter of law a "proper subject" for action by security holders. If the management opposed the shareholder's proposal, its proxy statement was and is also required to include, if the shareholder desires, his statement of not more than 100 words in support of his proposal, together with the shareholder's name and address. The management is also required under the rule to include in its accompanying proxy form or ballot appropriate boxes. These boxes enable shareholders solicited by the management to vote as they as shareholders desire, either for or against their fellow shareholder's proposal, instead of being relegated as formerly to having their shares voted as management desired, pursuant to management-drafted, discretionary, proxy powers. The rest of the rule was devoted to a variety of limitations on its use or abuse by shareholders, including provisions for omission of three categories of proposals, namely: (1) proposals for enforcing personal claims or grievances or for promoting various general causes, (2) proposals previously carried in the management proxy statement but not presented at the shareholders' meeting, and (3) proposals receiving less than 3% of the votes cast on them.

1954 AMENDMENTS TO SHAREHOLDER PROPOSAL RULE

Opposing nine representatives of the public shareholders at the present SEC's administrative, public hearing in December 1953 were eleven representatives for large corporations. Over the objections of the representatives of the public shareholder, the present SEC, among other things, (1) extended the thirty-day advance submission provision regarding shareholder presentation of proposals to management to sixty days "in order to give management more time to consider . . . proposals," (2) superseded the 3% resubmission requirement with a 3-6-10% progression applicable to first, second, and subsequent submissions, (3) barred proposals recommending or requesting management action relating to the "conduct of ordinary business operations," and (4) required twenty-day notice to shareholders and to the SEC of management intent to omit a proposal, as an incident of the sixty-day advance submission provision. Following the opposition of the public shareholders' representatives at its public hearing, the SEC abandoned two suggested changes, namely, (1) proposed textual deletion of the rule's "proper subject" test as the standard used in determining which shareholder proposals must be included in management proxy statements, it having been pointed out to the SEC that the "proper subject" test was supported by administrative interpretation, judicial review, and substantial experience, and (2) proposed omission by management of proponent's names and addresses from the management proxy statement so as to "discourage publicity motivated proponents," it having also been pointed out to the SEC that there were at least sixteen objections to this suggested procedure.

As in the 1948–51 and 1952–53 surveys, there are four principal areas with respect to shareholders proposals. One is the matter of proposal frequency and company size. Another is the subjects encompassed by the proposals. The third concerns the identity of the proponents. In addition, results of voting on the proposals will be considered. Fourth is the principal characteristics of American public shareholders as well as current comments regarding them.

During 1954 only fifty-two, or 2.7%, of the 1,887 proxy statements filed with the SEC carried shareholder proposals. Speaking purely numerically, there were a total of eighty-five proposals in 1954 compared with ninety in 1953, seventy in 1952, and an average of fifty-six and a median of sixty-one during the ten years 1943–52.

PROPOSAL SUBJECTS

In the 1948–51 and 1952–53 surveys shareholder proposals for cumulative voting, accounting for approximately 20% of all proposals, proved to be the most frequent, followed by Transamerica type proposals, remuneration proposals, and director proposals in that order, and all quite conventional in character. Data obtained from thirty-seven, or 71%, of the fifty-two companies whose 1954 proxy statements carried shareholder proposals showed an exactly equal number of cumulative voting, Transamerica type, and director proposals, there having been fourteen of each or a total of forty-two amounting to an aggregate of 72% of the fifty-nine proposals as to which information was obtained.

Cumulative voting is now mandatory under the corporation codes of twenty-one states, permissive in seventeen others, and is required in the American Bar Association's Model Corporation Act. While cumulative voting is also now required under the National Banking Act, the United States Senate on June 23, 1955, voted fifty-three to twenty-one, with twenty-two senators not voting, to amend the Banking Act to make cumulative voting merely permissive and thus ineffective for practical purposes. In essence cumulative voting provides for minority representation, and prevents a 51% or larger majority from having 100%, or dictatorial, control of a corporation.

RESULTS OF VOTING

Shareholder proposals continued in 1954 to draw relatively few votes, deriving such support as they received from public shareholders and little or none, as pointed out, from the investment companies. During 1948–51 85% and in 1952–53 74% and 81% of the proposals for which results of voting were obtained received more than 3% of the votes cast as required under the proposal rule in order to be eligible for resubmission the next year. In 1954 75% drew a 3% or larger vote. Similarly, in 1948–51 approximately 60% disclosed a less than 8% favorable vote, in 1952 and 1953 66% and 63% received a less than 8% vote, and in 1954 62% obtained a less than 8% figure. Since only 50% received more than a 6% vote the restrictive impact of the 3–6–10% resubmission requirement imposed by the 1954 amendments to the shareholder proposal rule is apparent as to first resubmissions. The further circumstance that only 32% received a more than 10% vote likewise illustrates the harshness of the 10% requirement on second and subsequent resubmissions.

Some indication of the American shareholders' possible capacity for corporate understanding is suggested by consideration of the locality in which they reside. Their sex, age, educational level, income class, and occupation should also be helpful.

GEOGRAPHICAL DISTRIBUTION

Based on the Brookings Institution's 1952 study, New York ranks first among the states in shareholdings in common stocks with about 4.8 millions, or roughly 21% of the total. Pennsylvania stands second with over 2.4 million or 11%; California, third with more than 2.2 or about 10%. The next ranking states are Illinois with about 1.6 million and Massachusetts with 1.5 millions. These five states combined account for 12.5 million shareholdings in common stocks, or roughly 56% of the total. Nevada has the smallest number of shareholdings in common, 18,000, and North Dakota is next to last with 21,000.

New York also ranks first in the number of shares in common stocks, the figure being 920 million or almost 27%. None of the other five ranking states shows a smaller number of shares than for shareholdings.

The Middle Atlantic states account for about 8.4 million shareholdings in common stocks or 37%. The East North Central states rank second with 3.9 million and 17%. The New England group is third with 2.8 million and roughly 12.5%, and the Pacific states are fourth with 2.6 million and 12%. In the South Atlantic group there are a little over 2 million shareholdings; the only other division with more than 1 million is the West North Central area.

When comparison is made on the basis of the number of shares, the same order obtains except that the Pacific ranks above New England. The number of shares for the three Middle Atlantic States is 1,327 millions, or roughly 39%. The only other geographic division showing a smaller number of shares is the Mountain group; the decrease for this area amounts to about 1.5%.

Shareholdings and shares are therefore found to be largest in number in urban, industrialized sectors where educational and other research facilities are favorable to the securing and interpretation by shareholders of corporate information.

SEX, AGE, EDUCATIONAL LEVEL, INCOME CLASS, AND OCCUPATION

Brookings Institutional estimates are available as to each of these categories. They showed 3,260,000 male and 3,230,000 female owners of publicly held stocks. In the adult population there are an estimated 3,210,000 men who own shares in publicly held companies. The comparable figure for women is 3,140,000.

Six age bands were set up, one for under 21, four for ten-year spans from twenty-one to fifty-nine, and one for over sixty. Share ownership increases for each age group, both in number and relatively, until the sixty-year mark is reached. The number of share owners in the sixty-and-over group is only moderately lower than for the fifty-fifty-nine group. The largest proportion of share owner to population is in the fifty to fifty-nine age group, the estimated number of share owners being 1,750,000 or 10.8%.

The next largest number of share owners, and also the next largest percentage, is for individuals sixty years of age and over, these figures being 1,740,000 and 9.1%, respectively. The forty to forty-nine age group includes 1,290,000 share owners or 6.6% of those in this age group. In the thirty to thirty-nine group there are 1,180,000 share owners, or 4.8%. There is a very sharp drop for the twenty-one to twenty-nine group, which shows only 390,000 share owners — or 2%, a reflection of the fact that both earning power and the volume of funds accumulated for investment tends to increase with advancing age. More succinctly stated, the estimates indicate there are 3,490,000 share owners — or more than one half the total — who are fifty years of age or over.

EDUCATIONAL LEVEL ENCOURAGING

The educational level of shareholders is especially encouraging from the standpoint of prospects for shareholder participation in corporate affairs with a view to attainment of corporate or shareholder democracy. The smallest proportion of share owners — roughly 3% — is found among people who did not have an opportunity to complete high school. Shareholders in this group are estimated at 1,860,000 or close to 30 per cent of all share owners. The estimated number of share owners who completed four years of high school is 1,840,000 or 29%. When the college level is reached, the proportion of share owners rises sharply. It includes 2,630,000 share owners or 40%.

Over a million families with incomes of less than $4,000 own shares in publicly-owned corporations, and they represent more than 1/5 of all share-owning families. In the $4,000 to $5,000 range there are approximately 600,000 families in which shares are owned. They represent about 1/8 of all share-owning families. The $5,000 to $10,000 ranges accounts for 44% of all share-owning families, and includes over 2 million families. The $10,000 and over bracket includes 24% of all share owners. Embraced are over 1 million families and 20% of all share-owning families.

Viewed occupationally, the proportion of share ownership is highest for administrative executives, the ratio of share owners to the number in this group being placed at 45% and their number at 300,000. This classification is restricted primarily to major company officials, such as presidents, vice presidents, other officers, and managers holding top positions in the larger business organizations. It also includes officers and key officials of banks and other financial institutions. These persons account for 4.6% of all share owners. This class, with other occupations, are shown in the following table:

Occupation	% of Population	Estimated Number	% of Total Share Owners
Administrative executives	44.8	300,000	4.6
Operating supervisory officials	19.4	620,000	9.6
Professionals (personal services)	12.4	370,000	5.7
Professionals (technical fields)	13.2	300,000	4.6
Sales personnel	11.2	200,000	3.1
Merchants	10.6	250,000	3.9
Clerical workers	7.6	590,000	9.1
Farmers	6.8	320,000	4.9
Skilled workers (foremen)	4.4	410,000	6.3
Public service workers	3.4	40,000	0.6
Semi-skilled workers	1.4	210,000	3.2
Unskilled workers	0.2	10,000	0.2
Members of armed forces	1.1	20,000	0.3
Employed (occupation unidentified)	nil	nil	nil
Non-employed adults	1.3	30,000	0.5
Non-employed (retired, dependent)	9.1	560,000	8.6
Housewives (non-employed)	6.0	2,130,000	32.8
Students & preschool age	0.2	130,000	2.0

It will be noted in the chart above that housewives or homemakers who are not employed account for over 2.1 million share owners, or nearly one third of the total. The proportion of share owners for this group is 6%. When share owners among married women who are also employed are combined with this group, the total becomes about 2,700,000. While this occupational group is large indeed in numbers it would seem likely that it is considerably less autonomous than many of the others, and that it probably is guided to a substantial degree insofar as its shareholder activities are concerned by husbands and perhaps other males classified in one or the other of the various other occupational groups.

UNITED FRUIT COMPANY

225th
Consecutive
Quarterly Dividend

A dividend of seventy-five cents per share on the capital stock of this Company has been declared payable Oct. 14, 1955, to shareholders of record Sept. 9, 1955.

EMERY N. LEONARD
Secretary and Treasurer
Boston, Mass., August 15, 1955

The **DIAMOND MATCH COMPANY**

74th CONSECUTIVE YEAR OF DIVIDENDS

The Board of Directors of The Diamond Match Company on September 22, 1955, declared a quarterly dividend of 40c per share on the Common Stock. At the same meeting the Board also declared a quarterly dividend of 37½c per share on the $1.50 Cumulative Preferred Stock. Both dividends are payable November 1, 1955 to stockholders of record October 7, 1955.

diamond

WARD W. DE GROOT, *Secretary*

MATCHES · PULP PRODUCTS · LUMBER · BUILDING SUPPLIES · WOODENWARE

CONCLUSION

Investment companies often are doing little toward fulfillment of their obligations to shareholders generally. This may lead the SEC, Congress, or private organizations and persons to investigate the matter fully. Shareholders, as individuals, have as their only really effective recourse resort to or support of a full-fledged proxy contest for control or representation of their company's board of directors. The proposal rule as a safety valve or sounding board has been very seriously impaired, with the likely result that another and volatile contributing factor to an increasingly large number of proxy contests has been added at the very time that the Senate and some segments of the general public have been expressing concern over the reoccurrence of proxy contests. This was the experience afforded by 1954, and data now available as to 1955 gives little indication of a different result this year.

Does the American public shareholder, apart from investment company inactivity and the recent restrictions imposed upon the shareholder proposal rule, considering, among other things, his place of residence, age, educational level, income class, and occupation appears to have a capacity for corporate as well as general understanding? Without detailing the comments of some contemporaries, all seem agreed, though to varying degrees, that he does, and that corporate or shareholder democracy is both a desirable and a practicable objective in our society with, however, one current suggestion of some doubts on the subject.

In a book review in a recent issue of the Harvard Law Review a visiting British law professor quoted *Ballantine on Corporations* for the statement: "It is not clear that . . . the votes of thousands of individual shareholders would be the most desirable guide for the management or policy of large business corporations." In support of this statement Ballantine, now deceased, cited principally two law review articles — one written in 1937 and the other in 1941. When the writer of the latter, a prominent New York practitioner, was interviewed recently on the matter of the position of the public shareholder, he stated they had made much progress during the past twenty years and indicated he was optimistic as to their capacities.

"This does not mean that shareholders should intrude into management's day-to-day operation of the corporation. But it does mean that management may poll shareholders in advance by submitting far more proposed practices and policies to them for prior discussion, criticism and vote. It likewise means that shareholders can at times participate effectively in reviewing, re-examining and, if necessary, revising, practices and policies carried on during periods preceding their annual and special meetings."

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Chances are we'd still be using buggy whips, wood stoves, wash tubs and kitchen pumps. The low cost, mass produced necessities and conveniences we know today couldn't exist without mass markets created by modern financing.

Among the nation's largest providers of credit, Associates and its subsidiaries do a combined business of well over a billion dollars a year. Much of it is in automotive time sales financing; but much of it, too, is in commercial loans to manufacturers and business enterprises, and in direct and personal installment loans to individuals.

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Working capital for business and industry is provided through the Associates Commercial division, with offices in New York, Chicago and South Bend.

A REPORT FOR THE FIRST SIX MONTHS

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 1955	June 30, 1954
CASH AND MARKETABLE SECURITIES	$ 81,146,112	$ 66,968,329
RECEIVABLES:		
Retail motor vehicle installment receivables	$578,409,395	$424,553,547
Wholesale motor vehicle short-term loans	67,100,654	45,487,999
Direct and personal installment loans	41,678,044	37,765,548
Commercial and other receivables	27,696,421	25,803,615
	$714,884,514	$533,610,709
Less: Unearned discounts	44,144,624	30,707,576
Reserve for losses	17,506,326	11,484,714
Total receivables, net	$653,233,564	$491,418,419
OTHER ASSETS	11,529,998	7,617,605
	$745,909,674	$566,004,353

LIABILITIES

	June 30, 1955	June 30, 1954
NOTES PAYABLE, short-term	$352,716,100	$255,560,050
TERM NOTES due within one year	39,770,000	43,250,000
COMMON STOCK DIVIDEND payable July 1, 1955	1,562,736	1,406,462
ACCOUNTS PAYABLE, ACCRUALS AND RESERVES	29,705,347	24,724,799
UNEARNED INSURANCE PREMIUMS	28,925,709	24,876,229
LONG-TERM NOTES	136,135,000	85,455,000
SUBORDINATED LONG-TERM NOTES	42,000,000	35,000,000
CAPITAL DEBENTURES	18,500,000	9,000,000
PREFERRED STOCK	12,500,000	12,500,000
COMMON STOCK	31,254,720	31,254,720
SURPLUS	52,840,062	42,977,093
	$745,909,674	$566,004,353

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Six Months Ended June 30, 1955	Six Months Ended June 30, 1954
Discount, interest, premiums and other income	$51,648,914	$46,254,477
Operating expenses	34,296,900	30,792,812
Net income before Federal income tax	$17,352,014	$15,461,665
Provision for Federal income tax	8,540,000	7,490,000
Net income	$ 8,812,014	$ 7,971,665
Consolidated net earnings per share of common stock after payment of preferred dividends	$2.73	$2.47

Associates

Commercial and Installment Financing

ASSOCIATES INVESTMENT COMPANY

ASSOCIATES DISCOUNT CORPORATION

and Other Subsidiaries

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Dr. W. E. Bradley

Or how the amazing purple motor oil turned purple

"You've heard it said that competition among companies brings you better products ahead of time?

"Then sit in with me out at Union Oil's research center for a spell and see it happen.

"Take the case of the amazing purple motor oil. Some years back we foresaw that car engines coming up would put more than simple lubrication demands on oil.

"So we developed a method of improving oil stocks. It gave us an oil base that was better than anything nature had ever produced.

"To this we added special ingredients: one to keep the engine cleaner, one to neutralize acids from the combustion chamber and to reduce metal wear, another to control sludge formation. And one of these additives turned the oil purple!

DR. BRADLEY, MANAGER OF RESEARCH; WITH UNION OIL 24 YEARS.

"Our new product was so amazingly good it permitted manufacturers to step up horsepowers of their engines. Fact is, this was the original type of heavy duty motor oil used all through World War II.

"We continued perfecting our purple oil, and when peace came we named it Royal Triton and put it on the market. To demonstrate its superiority we filled the crankcases of four different makes of cars with it, then drove them 30,000 miles without changing oil—only adding make-up.

"When we tore the engines down we found the wear was within the usual factory tolerances for new parts. And every part clean as a whistle.

"If you use Royal Triton in your car today you probably take this kind of performance for granted. But don't forget—it was competition that put the pressure on us to bring it to you long before you asked for it!"

* * * *

Royal Triton has been a success from the start.

Today—in new all-weather 5-20 and 10-30 grades designed specifically for modern high-compression engines—it embodies the latest advances in lubricating oil technology.

Yet Dr. Bradley and his research teams are even now trying to find new ways to increase its margin of superiority.

This is a typical example of how you benefit when free men freely compete for your business.

Union Oil Company OF CALIFORNIA

YOUR COMMENTS ARE INVITED. *Write: The President, Union Oil Company, Union Oil Bldg., Los Angeles 17, Calif.*

Capital Gains

FRED HENKEN, JR.

SELDOM DOES A SECURITY ANALYST desire to offer investment advice to security analysts generally. And yet this is what is now being done, and without the least feeling of trepidation.

Shortly after the turn of the new year, with the Dow average seemingly impatient to get on from levels somewhat above 400, an examination of certain situations in which rather inviting capital gains existed indicated that a couple of "birds in hand" might be worth more than profits on paper. As with all conclusions of this kind, the question which follows is, where to put the money? Coincidentally, a shivering long-term forecast appeared in the press and not far from it a beguiling advertisement which seemed to offer an ideal opportunity to do something to counteract the icy blast. Nevertheless profits were taken.

Most of those capital gains were not reinvested—at least not in securities. Instead the increasingly chilly climate of North Temperate Zone gave way to balmy breezes and the blue Gulf Stream—which in itself is recompense.

FIELD TRIPS

Over the years field trips from Coast to Coast have been found of material assistance in developing background and appraisal of particular situations. In no other way can such understanding be gained effectively with respect to areas, industries, and companies within industries. Most analysts will testify to the heightened interest that even a brief visit can generate. In fact without the trip an investigation might rest entirely on statistics.

Most field trips are within the confines of the United States. Relatively few analysts have investigating opportunities in foreign countries. Actually few have any real interest in corporations located in distant lands. Such interests should be developed. Stephen Joseph, writing of "The New Capitalism" in the February issue of the *Analysts Journal,* remarks that "it would be well if we made greater efforts to let the rest of the world know about it, to explain how we are progressing, so they may adapt our system to their individual needs." Well and good, but is not there also a need for analysts to know somewhat more intimately conditions as they actually exist in some of the other countries of the world?

SOUTH AMERICA

Initially more attention could be bestowed on our Latin neighbors to the south. Their proximity alone gives them importance for the United States. It makes our close relationship of mutual value. We might with very little effort and not too much dollar outlay build a foundation for community of interests and operations.

Few petroleum analysts have visited Venezuela, or know much about its rich oil fields from personal investigations. Provincial residents of large North American cities are amazed when they first see the new building units of Caracas. It seems almost incredible that these extraordinary buildings spring up all over this metropolis in the mountains. Some of these mountains are now being sliced across their tops to provide additional construction space.

Large quantities of durable goods are brought to South and Central American cities from the United States, and this is made possible by their huge oil traffic going in the opposite direction of the Northern manufactured goods. The trade is increasing.

OUR FINANCIAL HORIZONS

The present may be an opportune time to broaden our financial horizons. In addition to the South American markets, economic conditions and demands in many European countries present prospects of continuing improvement for a long period to come. This seemingly is true without regard to what short-term trends develop in our own business structure. For this reason a large part of the manufactured products of the United States will be sold in foreign markets.

Part of our food surpluses have found consumers abroad and more shipments may follow in spite of certain obstacles and objections. Very important are the number of our own companies that are increasing their stakes away from home. These include manufacturing drug companies, some of which find 20% of their total volume from foreign operations. Then there are certain variety chains whose activities outside this country are as important as their domestic business.

Foreign operations add to the output of light and heavy durable goods manufacturers, food processors and numerous specialty businesses which regularly count on foreign sales to increase their yearly earnings. Thus the importance of being able to evaluate enterprises in countries abroad assumes significance. What better means of developing this ability exists than by study in the countries themselves?

INTERNATIONAL FINANCE

And while we are considering the development of international financial analysts it should be noted that the National Federation of Financial Analysts Societies may be seen to be active in this direction. Reciprocal enterprises and research projects of a financial nature are looming. Our methods are becoming interesting to the foreign analysts.

Our population is only a small percentage of that of the world. Today we are in advance of most other countries in our standard of living, but their populations show signs of awakening to the advantages of encouraging greater efforts toward industrialization and more complete development of local resources. All people have increasing desires for more of the physical things which make life easier. All are beginning to examine the potentialities of American techniques in relation to their health protection, improved production of local products and industrialization. The long-range result should be to raise their living standards.

While it is true industrialization abroad will provide increasing competition for some American companies, it can also be argued that on a broader basis additional markets resulting from improving living standards abroad could mean a growing interest in American products.

Does not this suggest the desirability of obtaining more first-hand knowledge of foreign lands? Think of the composite results that might grow from numbers of visits abroad by a cross-section of analysts.

Granted one does not become an expert by making a short visit to a selected country or group of countries, nevertheless, it does stimulate continuing interest in such countries.

What can take the place of actually making change in local currencies, even though the dollar is accepted with alacrity by many foreign citizens? Pesos, bolivars and the various other paper currencies, with their unfamiliar pictures, printing, and sometimes inferior paper, may not initially impress one who has seen only dollars during his lifetime. It will become evident, however, that local citizens aspire to accumulate increasing amounts of this "inferior" currency which is so instrumental in providing a means for carrying on extensive commercial transactions. And it may be a revelation also to discover how many of these currencies, far from selling at a discount, are well up in value in terms of our own dollar.

How else but by personal contact can one secure a reliable knowledge of the manner in which people in other countries live, the types and sizes of their homes, their cities and towns, the appearance of the rank and file as compared with the more privileged groups? What the prospects are for upgrading their income, their status and demands? All this is essential atmosphere which is influenced by the attitudes of plain people, business leaders and, of course, governments which dominate their lives. Economic resources can be obtained statistically from reference books, but frequently a local visit reveals more concrete awareness of the major beneficiaries from the development of such resources than does any other means.

It is recognized that not every analyst is in a position to embark on long trips, but surely many have the means, if they but had the will, to visit countries not far distant from our shores.

Perhaps one reason why as a nation we are "misunderstood" abroad is that most of our own citizens know little about people and places beyond the confines of our borders, especially countries separated from us by wide expanses of water. Unfortunately, this ignorance is due primarily to lack of interest, which is not confined entirely to the disinterested but is prevalent among surprising numbers of otherwise well-informed business and professional men.

It is quite possible, too, that visits such as have been suggested could go a long way toward counteracting the not too constructive influence of many less responsible American visitors. For the analyst personal exposure to new ideas, strange products, and methods of transacting business different from those in his own country should develop background and an intimacy of viewpoint that only direct contact can supply. Then extend this exposure to numbers of analysts. Conceivably the end result might be that this representative group, already active in the American business picture, could exert an even more constructive influence than it now does. Moreover, as a world power, we as a country stand to benefit collectively from wide understandings. And, finally, such visits may gain for us in the minds of those abroad far better impressions than are now widely prevalent.

Admittedly the analyst traveling in foreign countries will not like everything he finds. No nation is perfect, since all of them are composed of imperfect humans. Forms of government will vary from ours. Temperaments, attitudes and philosophies may be as alien as the soil he visits. If, however, he applies his analytical abilities, much of worth can be gleaned from his day-to-day observations. Climate, he will discover, is frequently a dominating influence.

THE ANALYST'S ENLARGED OUTLOOK

Perhaps the most rewarding experience will come to the analyst when he realizes the extent to which his own outlook has been influenced by personal contact with peoples and places in other lands. Prejudices are born largely of ignorance, and nothing dissipates them quite so rapidly as a broadened outlook which recognizes that the sun does not only rise and set within the confines of the United States even though we love it and would not care to be domiciled anywhere else.

Needless to say, a short visit will not make an analyst an authority. It could, however, provide that heightened interest and perhaps the inclination for deeper study.

Excellent returns can be guaranteed on the investment of broader interests.

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared quarterly dividend No. 148 of one dollar and seventy-five cents ($1.75) per share on the preferred stock payable September 1, 1955, to stockholders of record at the close of business on August 5, 1955.

GERARD J. EGER, Secretary

OUTBOARD, MARINE & MANUFACTURING COMPANY

Dividend Notice

A cash dividend of forty cents (40c) per share on the Common Stock of the Company has been declared by the Board of Directors, payable Nov. 25, 1955, to stockholders of record Nov. 9, 1955.

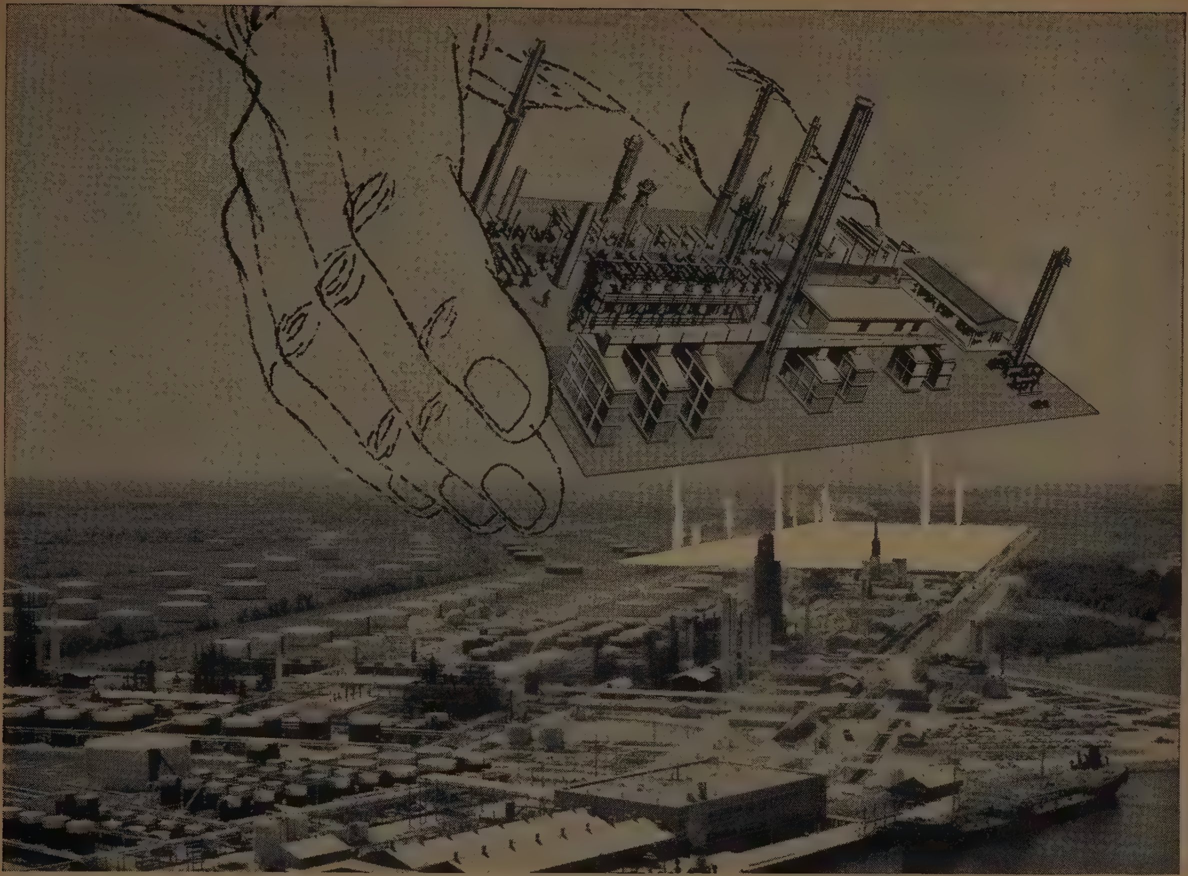
H. M. FISHER, Secretary

Oct. 25, 1955.

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared quarterly dividend No. 162 of fifty cents (50¢) per share on the common stock payable October 15, 1955, to stockholders of record at the close of business on September 15, 1955.

GERARD J. EGER, Secretary



Coming: Still another new Pure Oil Refinery Unit

Giant catalytic reformer is newest example of PURE'S expanding refinery operations

Big things have been happening at Pure Oil refineries—and there's more coming.

. . . Latest development is a new catalytic reforming unit at Smiths Bluff refinery, near Beaumont, Texas, which will keep this refinery one of the most modern in the nation. By converting low-octane naphtha into a high-octane product, the reformer will substantially increase the refinery's output of top-quality gasoline.

. . . Now in full operation at the Toledo refinery is a new unit for the manufacture of specialty naphthas.

. . . The new Fluid Catalytic Cracking Unit at the Smiths Bluff refinery has already boosted that plant's capacity for producing high-quality gasoline.

. . . The new catalytic reforming unit at the Heath, Ohio, refinery greatly increases gasoline output and crude charging capacity.

. . . Last year a whole new refinery was added to the growing PURE line-up when complete refining facilities at Lemont, Illinois, were acquired. A new catalytic reforming unit is now being planned.

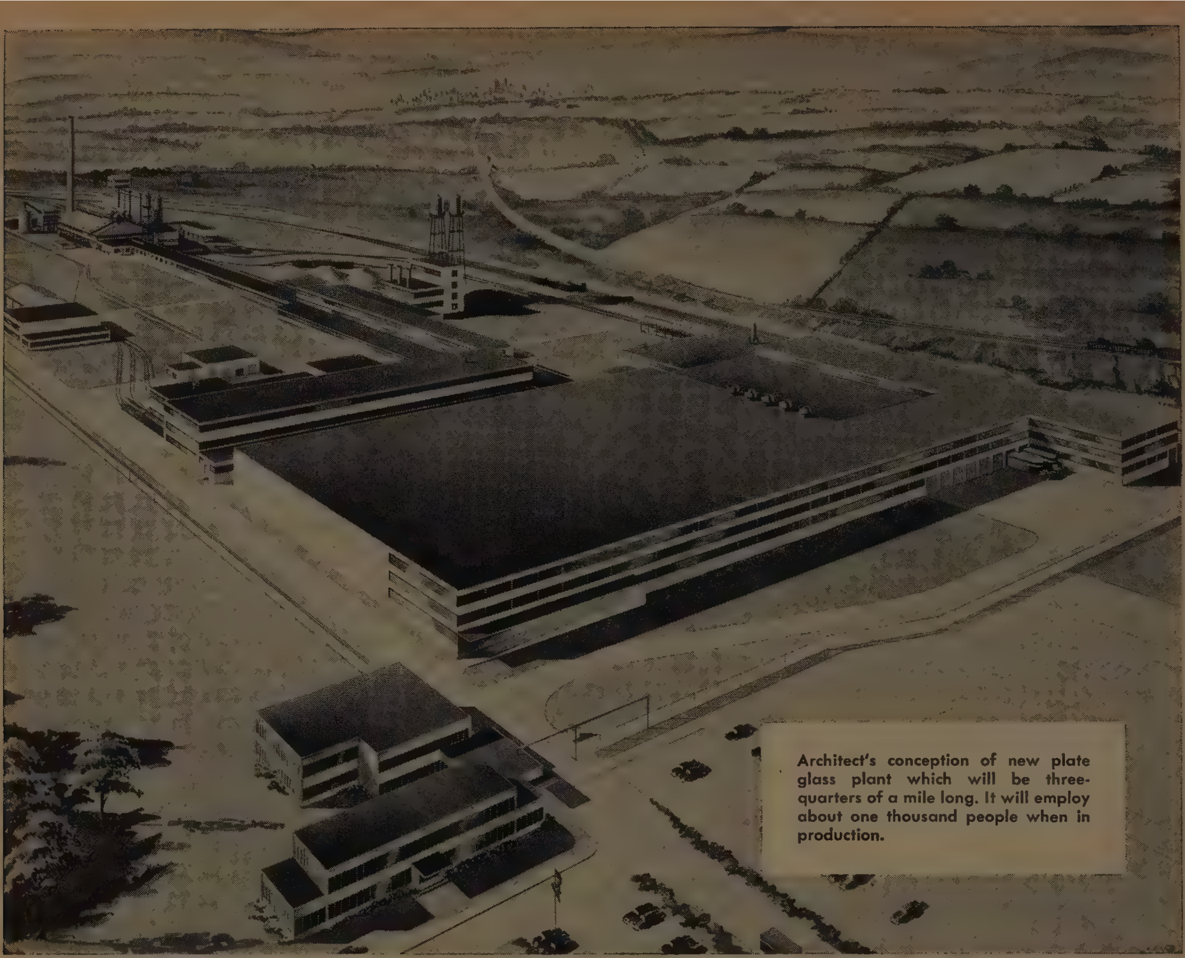
All this is part of PURE'S ever-expanding operations in all phases of the oil business, from research to marketing. This progressive policy keeps PURE moving ahead in a highly competitive industry.

THE PURE OIL
PURE
COMPANY, U.S.A.

Be sure with Pure

The Pure Oil Company

35 East Wacker Drive, Chicago 1, Illinois



Architect's conception of new plate glass plant which will be three-quarters of a mile long. It will employ about one thousand people when in production.

Pittsburgh building new plant to meet expanding plate glass demand

Despite the fact that Pittsburgh Plate Glass Company is today producing more plate glass than the domestic glass industry as a whole produced in any year prior to 1940, and despite the fact that its window glass production is approximately 80% above the industry level of 1940, these glasses continue to be in short supply.

To help satisfy a constantly expanding market, Pittsburgh Plate Glass Company has under construction at Cumberland, Maryland, the new plant illustrated in the architect's drawing above. This new plant will cost an estimated $34,000,000. Here, plate glass will be produced by a twin-grinding process and by other revolutionary manufacturing methods. It is expected that this plant will be operating at full production by January 1957.

This is another example of *Pittsburgh's* awareness of the needs of America's broadening economy and its dedication to meeting those needs—insofar as its products and services are concerned.

PAINTS · GLASS · CHEMICALS · BRUSHES · PLASTICS · FIBER GLASS

PITTSBURGH PLATE GLASS COMPANY

IN CANADA: CANADIAN PITTSBURGH INDUSTRIES LIMITED

A Means for Measuring Market Movements

MORRIS PECKMAN

APPRAISING THE STOCK MARKET is always a difficult task. Its constant shifting poses the daily problem of determining direction, measuring level and weighing basic strength or weakness. Innumerable instruments supplementing financial and economic data utilized by security analysts and investment counselors are being applied to appraising investment trends. Thorough market analysis should include many different devices. One such, easily calculated, is useful in determining the market for an intermediate period but it is not to be employed for forecasting the longer term market. It is a thermometer of the market at a given moment. Observations emerging by actually working at daily calculations should enable the analyst to judge the lines in relation to their rate of advance or decline.

This method involves the use of published stock market data consisting of two variables; advances or declines and highs or lows of New York Stock Exchange listed issues. On a short term basis, the market behaves not unlike a pendulum. It is influenced by economic, political, emotional, accidental and other unpredictable forces which carry it periodically to heights of optimism or depths of pessimism. Because of these factors the market is subjected to a great deal of irregularity and gyration. This method attempts to measure the extent of the market's swings and their underlying strength or weakness, by the charting of advances or declines and highs or lows.

The first curve, called "Momentum," is computed from net advances or declines. The other curve, called "Trend," is computed from net daily highs or lows. These curves take on many diverse patterns, some of which are familiar and useful for purposes of market interpretation, while others are not easily observed.

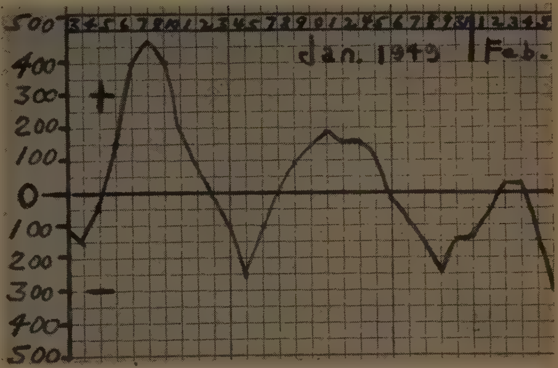
For purposes of clarification each line will be discussed separately. For establishing the market level and judging its behavior both should be used together. The curve representing Momentum measures the short term direction of the market. Its prime function is to afford a means of measuring relative market strength and the market's immediate tendency.

THE ZERO LEVEL

The zero level is the base from which one views market deviations. When the market exhibits no movement or trend it constitutes a dominantly static market. This is the zero level. For example, the Momentum curve will not be visibly affected if, for a given day, 1,100 issues trade, with 300 unchanged, with 400 each advancing and declining. Similarly with trend, if there are no new highs or lows, or if they should offset each other, the trend curve will remain at zero.

Momentum, therefore, mirrors those conflicting forces oscillating around a "stand-off" market, represented as the zero level. Deviations from that level, plus or minus, indicate the degree of market strength or weakness. The momentum figure is a composite measure derived from daily net advances or declines plotted as a six day moving weighted average. To help visualize the momentum curve and its general characteristics, a chart for the early part of 1949 is presented.

Momentum Line



There the curve, plotted daily, has a range of approximately five hundred points above and below zero. Momentum takes into consideration the 1,536 New York Stock Exchange listed issues, including the 446 preferred. It ignores volume and dollar values but these factors eventually make themselves felt by their impact on advances and declines. The Momentum line also treats each issue equally, regardless of dollar price or day to day price change. Although momentum encompasses every listed stock, it does not measure the breadth of the market. It reflects solely the net amount of issues that have advanced or declined since their last previous sale.

THE MOMENTUM CURVE

Generally speaking, when the Momentum curve is above the zero line it indicates strength, and when below it indicates weakness. The slope of the curve as measured by its acceleration or deceleration denotes the degree of strength or weakness within the plus or minus area.

All the basic statistics needed for calculating momentum is available in the Wall Street Journal's six day market diary. The data may also be found in many leading financial newspapers.

Market Diary

	Thur.	Wed.	Tues.	Mon.	Fri.	Thur.
Issues traded	1,095	1,121	1,147	1,105	1,107	1,127
Advances	426	398	323	414	486	626
Declines	404	457	555	435	356	252
Unchanged	265	266	269	256	265	249
New highs, 1955	18	19	23	15	22	26
New lows, 1955	14	26	18	13	6	24

To compute Momentum, a six day record has been chosen, but it is possible to use a longer period. Using the above statistics, one finds that the daily net difference of the advances and declines for the earlier Thursday is plus 374. It is then necessary to list the six daily net differences, plus or minus, and multiply each by the following weights, 1, 3, 5, 7, 9 and 11.

The assigned weights give emphasis to the most recent day's net difference and reduce the importance of preceding days. Following is an illustration for calculating the momentum figure using the above market diary.

Days	Net		Weights		Product
1st	+374	×	1	=	+ 374
2nd	+130	×	3	=	+ 390
3rd	— 21	×	5	=	— 105
4th	—232	×	7	=	—1524
5th	— 59	×	9	=	— 531
6th	+ 22	×	11	=	+ 242
			36		—1154

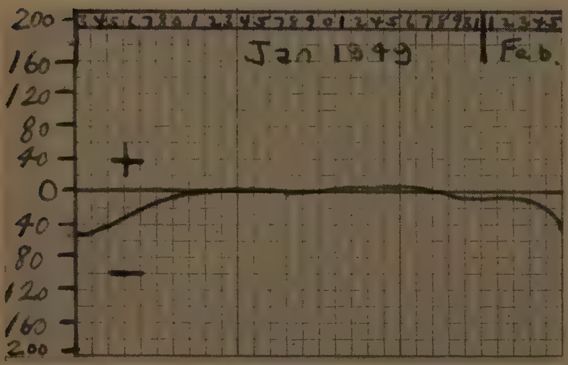
—1154 ÷ 36 = —32

Products for each of the six days are totaled and divided by 36, the sum total of all the weights. The resulting figure becomes the composite momentum curve and is plotted as plus or minus, depending on the calculation. Each succeeding new day takes on the weight of eleven and each preceding day has its weight reduced by an interval of two.

THE TREND CURVE

The other curve taken into consideration is Trend. As opposed to Momentum, the Trend line covers only those stocks that register new highs or lows during that particular day. It is considered the more stable figure for measuring market direction, since the composite Trend figure primarily reflects those forces motivated by buyers or sellers willing to purchase stocks at new highs or sell them at new lows. This has definite bearing in the determination of market trend. Invariably when stocks first reach new yearly highs they continue to press forward, based on impending developments. Conversely, when stocks first reach new lows they, too, usually continue moving in the same direction. Below is a trend chart for the early part of 1949.

Trend Line



Although composite trend figures have had a much wider range in periods of extreme market weakness or strength, the scale for the above Trend chart shows only a 200 point range. Interpretation of this line is fundamental. When it is pursuing a course in the plus area, the underlying market trend can be regarded as buoyant and the general direction of the main body of stocks tends upward. Conversely, when the trend is in the minus area it indicates market sluggishness and stocks tend to remain depressed.

From experience and past performance it has been observed that, when the composite Trend figure hovers within a range of twenty points above or below the zero level, a relatively narrow market usually occurs. When Trend is 20 to 40 points above or below the zero level, the market tends to work slightly higher or lower. However, when the Trend line is maintained above the forty point level for any period of time, the market tendency is a strong upward movement. Conversely, when the Trend curve pursues a course in excess of 40 points below the zero level, the market will tend to decline more sharply.

Trend is computed similarly to momentum in terms of assigned weights. Its construction, based on the above market diary, is shown below:

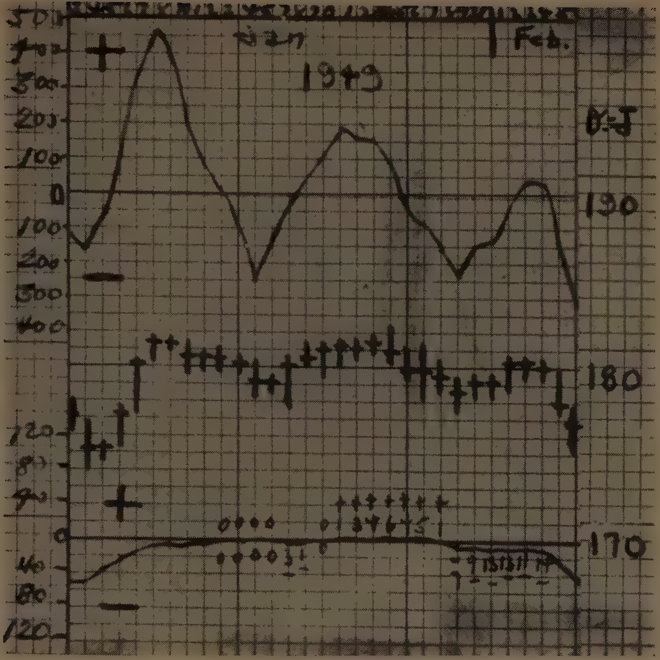
Days	Net		Weights		Product
1st	+ 2	×	1	=	+ 2
2nd	+16	×	3	=	+48
3rd	+ 2	×	5	=	+10
4th	+ 5	×	7	=	+35
5th	— 7	×	9	=	—63
6th	+ 4	×	11	=	+44
			36		+76

+76 ÷ 36 = —2

Each curve has its own function, however, when appraising the market both curves should be observed simultaneously for a more complete picture. If not, conclusions drawn may prove deceptive or meaningless. Generally speaking, the curves will move in sympathy and tend to complement each other. However, in many instances the Momentum line will move contrary to the Trend line due to its greater sensitivity. On a shorter term basis, the Momentum line is the more reliable indicator of strength or weakness but there should be confirmation by the Trend line before final determination of the market picture. For greater over-all market perspective, the Dow Jones industrial average or the use of Standard and Poor's 480 combined issues may be superimposed. Figure 1 is a chart of the two curves, including the Dow Jones industrial index, for the early part of 1949.

The chart represents a clear pattern showing the pendulum-like movement. In most other cases, however, this pattern would be more obscured. In this period, covering about five weeks, the Dow Jones industrial index showed a range of approximately six points. However, the Momentum line showed wide variations above and below the zero level, thus indicating the degree of underlying strength and weakness despite this apparently dull and unimpressive market appearance. Though the Trend line was practically immobilized, the sensitivity of the market was readily discernible.

Figure 1



FUNDAMENTALS EVOLVED

As a result of extensive observation of these charts, several fundamentals have been evolved. When the Trend line moves from the minus to the plus area, an upward change of market is indicated. Conversely, when the Trend line moves from the plus area into the minus sector, it indicates a downward market movement. When the Momentum line is maintained for any period of time below the minus area, a heavy market is indicated, and, conversely, if this occurs in the plus area, a buoyant market usually follows.

When the Momentum line moves from the minus to the plus area, crossing the zero level, and the Trend line remains around the zero level, or about 10 points in either direction, a short term market advance usually occurs. Conversely, when the Monemtum line moves from the plus to the minus area, a market decline occurs.

The principal outer boundaries of the Momentum curve are the five hundred point levels astride the zero line. At approximately these points, the Momentum curve tends to level off and move in the opposite direction, resulting in a technical rebound when Momentum is in the minus sector, or a technical market reaction when the Momentum line is in the plus area.

Earlier we had mentioned the possible use and recognition of pattern formations. Observation of the charts, when a pattern can be recognized, permits one to focus attention upon a specific type of action. Though some formations may prove deceptive, the conclusions derived from these patterns will probably be correct more often than not.

One of the most important types of patterns in any market is that which indicates a change in market direction. Exhibit I, in March and April, 1953, shows a chart with the type of downward pattern wherein both the Momentum and Trend cross the zero point and move from the plus to the minus area, indicating a change in market direction. Subsequently, declining markets occurred. In this pattern the Momentum line moves from about plus 150, passes through to the minus area and subsequently it evidences what could be termed the first part of a jagged telescopic movement below the zero level.

This specific type of momentum pattern, but of longer duration, occurred in the 1937 and 1946 bear markets. At both times Momentum narrowed into a ragged movement, broke out on the downside, reaching the 500 point level. At both times the Trend curve was beneath the zero level.

This chart shows that the Momentum line crossed the zero level fully one week before the Trend line. In appraising this market, however, despite the fact that the Momentum first turned downward in terms of a change in short term market direction, it was not fully confirmed by the Trend line, except that the slope of the latter continued to tend downward.

It will be noted that the Momentum line moved near the 500 point level and the Trend line reached a point almost at the 200 mark. As pointed out earlier, in our description of the method, when the Momentum line touches the 500 point level in the minus sector, a technical rebound usually occurs. An important guide in this type of pattern, when measuring relative market weakness, can be evidenced from the Momentum line's position at or about the 500 level. At this point a technical rebound did occur. Such rebounds may be confined to one or several days, depending upon other market factors. When the Momentum line first moves from the plus to the minus area it does not usually have sufficient impetus to carry

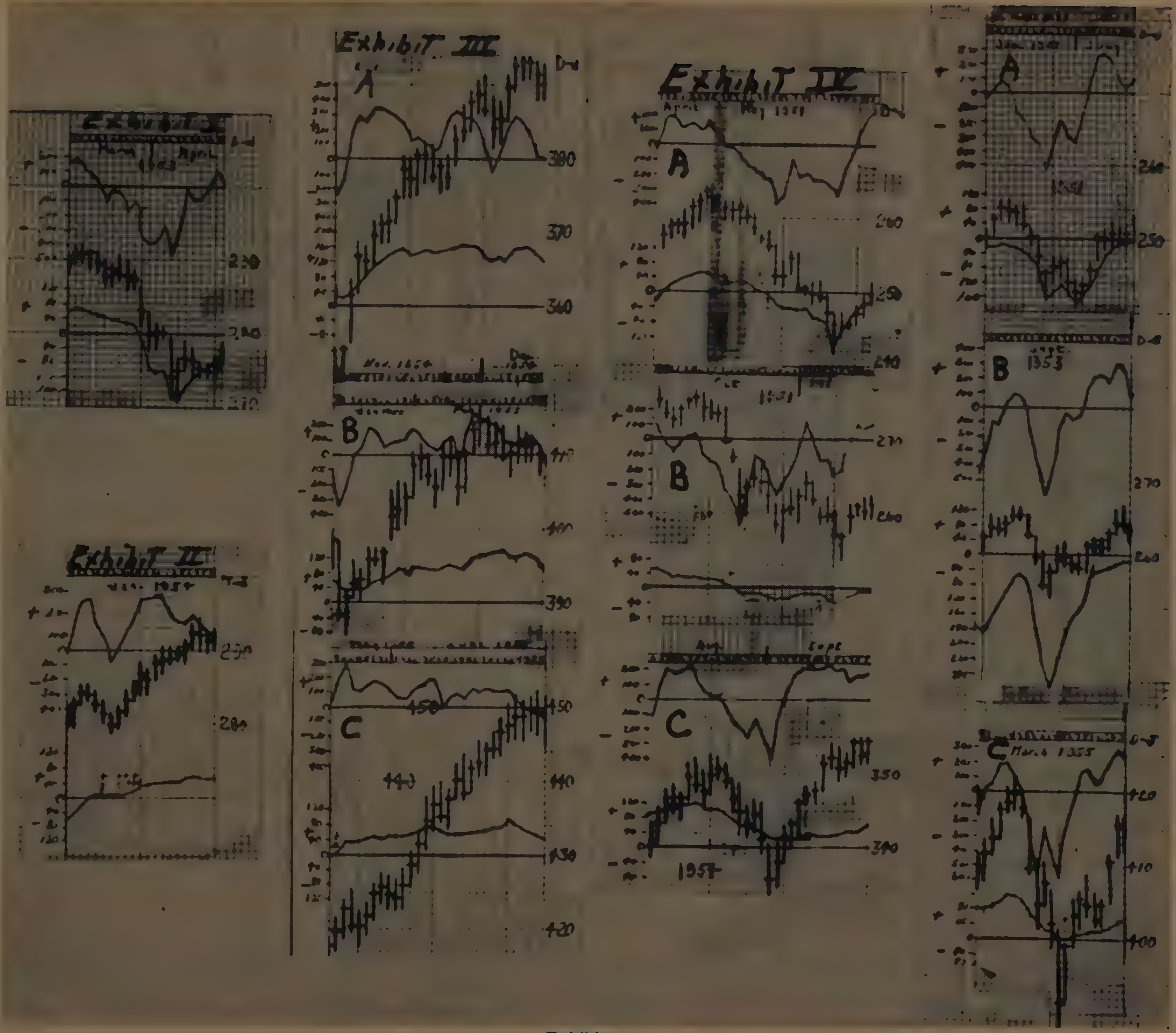


Exhibit I
April
1953
270
260
250
Exhibit II
1954
290
280
Exhibit III
A
380
370
360
Nov. 1954
B
410
400
390
C
450
440
430
420
Exhibit IV
A
April
May 1951
280
250
240
1951
B
270
260
Aug
Sept
C
350
340
1954
Exhibit V
A
Jan. 1950
260
250
B
Sept.
1953
270
260
C
March 1955
420
410
400

Exhibits

the averages too far down. When the Trend line begins to move from the plus to the minus area, a much sharper downward movement often occurs during such transition.

Exhibit II indicates an upward market pattern. Here the Momentum line remains buoyant and for the most part in the plus area. The Trend line moves from the minus to the plus area but during the transition it hovers around the zero point for several days, then begins to work moderately higher. At the same time the momentum line, although dipping slightly below the zero level for one day, indicates buoyancy foreshadowing a rising market. At its last peak, the momentum line reaches a 300 point level, indicating further buoyancy, but although it declines from that point, its slope shows that its decline is at a decreasing rate, indicating that a downward market is not in the offing.

BUOYANCY PATTERNS

Exhibit III, charts A, B and C, show a similarity of buoyancy patterns with the Dow Jones industrial averages at different levels. These specific examples have been selected because they show sustained market strength wherein a buoyancy type of pattern may be recognized readily. When the Momentum line is in the plus area and continues to maintain a movement in that area, above the zero point, for any extended period, and the Trend line complements that buoyancy by maintaining itself in a sidewise movement, or moving higher in the plus area, usually the market will work persistently higher. In this particular chart series, the fact that the Trend line is well maintained above the zero level indicates higher markets.

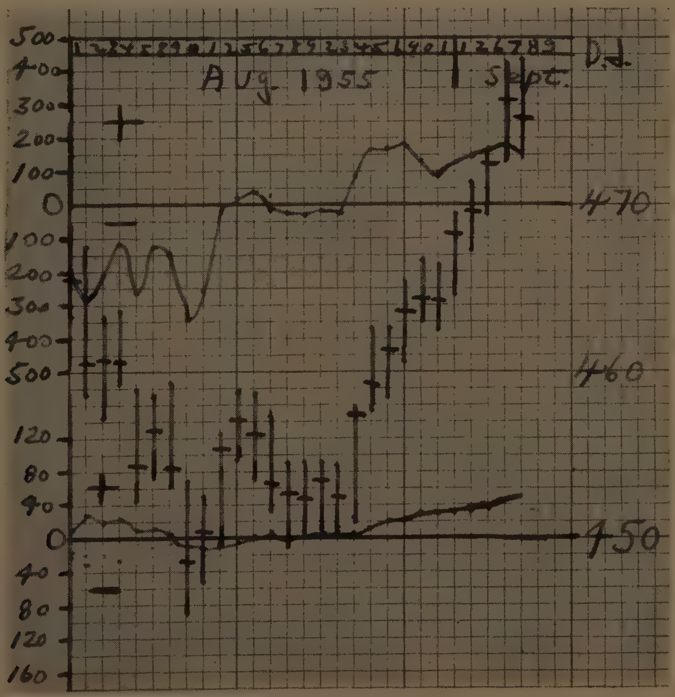
The Momentum line in some instances, in this type of pattern, may touch or recede slightly below the zero point, but it will tend to rebound when this type of market is confirmed by the Trend curve maintaining itself above the zero line.

In the case of Chart A, the trend line moved from plus 20 to almost 160 and from that level it firmly maintained itself. This type of sidewise Trend movement indicates that the number of new highs as opposed to the number of now lows was being steadily maintained whether they were new or repetitive highs, and the market reflected this factor by continuing to advance.

The chart series in Exhibit IV shows a phase of the market wherein temporary weakness occurs, but the Trend line, while it moves from the plus to the minus area, does not possess sufficient impetus to produce an exceptionally weak market. We consider these patterns as representing short term market weakness without a fundamental change in market direction. In charts A and B, both Trend lines shifted from the plus to the minus area, but in the case of Chart C, the Trend line did not pierce the zero level, although it declined close to it, thus indicating resistance to the downtrend. This particular pattern is termed a mid-point phase between two market extremes, the buoyancy patterns in Exhibit III, and that of the extreme weakness pattern which will now be discussed.

Exhibit V, charts A, B, and C, represent a market phase of extreme weakness, wherein the Momentum curve touches or oversteps the 500 point level in the minus sector. Recognition of the pattern is well defined because experience shows that the Momentum line infrequently reaches the 500 point level. When it does, a technical rally usually occurs, for a number of reasons. On the one hand, it is unreasonable to expect 500 net declines among

Figure 2



the listed stocks for each day for a series of six days, since this would mean a thoroughly disorganized market. On the other hand, supporting factors could come into play; such as bargain hunting, short covering and the repurchasing of sold-out positions.

It should be pointed out that this type of market movement is extremely difficult to measure through use of the stock averages. This particular type of pattern, however, occurs in all types of markets. It will be noted in Chart C that the Trend line is maintained above the zero point, compared with charts A and B, wherein it ranges within the minus sector. Yet in Chart C the Trend line begins moving steadily forward, and despite the extreme weakness of the market no change in market direction is evidenced.

Opposed to the extreme weakness pattern is the buoyant pattern in Exhibit III. Here, too, experience has shown that when the Momentum line is in the plus area, it does not remain at or near the 500 point level for any definite period, since profit-taking will follow, some short selling likely will take place, and there will be a general reluctance by both individuals and investors to buy at the temporarily advanced levels. Figure 2 is a chart of the market's position at this writing.

During the first part of August temporary weakness occurred which was similar to that of patterns in Exhibit IV, wherein the Trend did not possess sufficient impetus to produce an exceptionally weak market. For several days prior to August 23rd, both Trend and Momentum hovered around the zero level and, consequently, within that period there was difficulty in determining market direction. However, on the 23rd of August the Momentum curve decisively passed through the zero level, indicating a change in short term market direction. Subsequently, the Trend curve began moving ahead towards the 40 point level and the Momentum line remained buoyant, indicating further market strength.

RECOGNITION OF MARKETS

Pattern formations permit recognition of various market phases and measurements of the degree of market strength or weakness. Timing factors in the method may be adapted in conjunction with one's own data. However, pinpoint timing requires close study of the method and, while the probabilities are, on balance, that one could obtain satisfactory results, a great deal of experience, accompanied by knowledge of other market factors, is required for more accurate pattern interpretation. Comments on each of the charts carry no reference to the Dow Jones industrial average, which may be used to further confirm various patterns. However, it is not within the scope of this article to discuss that index and its application to this method.

This device, through the use of market patterns, should provide one with a keener perception of the immediate market. However, it does not provide, with any degree of certainty, a decisive indication, based on an impending event, as to the future course of the market, even if we presume that the market discounts almost everything. From the standpoint of usefulness and practicability, by establishing the market picture, through this method, one can generally be guided on a short term basis.

The method, nevertheless, has its limitations as, while it indicates strength or weakness, it fails to measure height and depth. Further, if one were to correlate the charts in terms of measuring the movements of individual stocks, special situations would not be reflected. In every case the decision to act will depend upon other factors as well, since this type of market measurement is only an instrument to supplement other market data for the investment problem at hand.

Common and Preferred **Dividend Notice**

October 26, 1955

The Board of Directors of the Company has declared the following quarterly dividends, all payable on December 1, 1955, to stockholders of record at close of business November 4, 1955:

Security	*Amount per Share*
Preferred Stock, 5.50% First Preferred Series	$1.37½
Preferred Stock, 5.00% Series	$1.25
Preferred Stock, 4.75% Convertible Series	$1.18¾
Preferred Stock, 4.50% Convertible Series	$1.12½
Common Stock	$0.35

Secretary

TEXAS EASTERN *Transmission Corporation*

SHREVEPORT, LOUISIANA

105

consecutive dividends

• A quarterly dividend of 45¢ a share has been declared on the common stock of this company, payable on October 1, 1955, to shareholders of record September 7, 1955.

• A quarterly dividend of $1.00 a share has also been declared on the preferred stock of the company. It too is payable on October 1, 1955, to shareholders of record September 7, 1955.

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plants or
plant sites

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Do you want an available building adapted to your needs—or an entirely new plant designed to your own specifications?

Look into offers being made by some of the progressive medium-sized communities we serve in Maryland, Pennsylvania, West Virginia, Ohio, and Virginia.

These communities want to assist you in adapting an existing building to low-cost production of *your* products—or in building a new plant to your specifications. New plant or modernization, they may be able to help finance the whole operation—and probably at less cost than you'd otherwise pay. Most community development organizations work on a non-profit basis.

What's more, you'll be dollars ahead in *reduced operating* costs after you move in. Many materials you need for successful manufacturing will be right in your own backyard. You save three ways: (1) reduced inventory (2) lower shipping charges (3) more productive labor. Ask us to prove it. Phone our Area Development Department—WHitehall 4-3740—or send in the coupon below.

Monongahela Power Company · The Potomac Edison Company · West Penn Power Company

West Penn Electric System

West Penn Electric System, Room 906
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WINN & LOVETT GROCERY CO.

AND SUBSIDIARIES

Jacksonville, Florida

OUR FOOD STORES COVER DIXIE!

Operators of retail food stores in Florida, Georgia, Alabama, Mississippi, South Carolina, Kentucky and Indiana.

● COPY OF COMPLETE ANNUAL REPORT AVAILABLE ON REQUEST

COMPARATIVE RESULTS AT A GLANCE

From Annual Report Year Ended June 25, 1955

	6/25/55	6/26/54
SALES	$260,813,772	$228,045,301
% Increase	14.37%	12.12%
EARNINGS BEFORE INCOME TAXES	$ 10,435,337	$ 8,601,780
per common share	$2.28	$2.04
% to sales	4.00%	3.77%
NET EARNINGS AFTER TAXES . . .	$ 5,128,337	$ 3,851,780
per common share	$1.12	$ .91
% to sales	1.96%	1.69%
DIVIDENDS PAID	$ 2,704,296	$ 1,815,136
per common share (present annual rate 72c)	$ .60	$ .44
STOCKHOLDERS' EQUITY		
common	$ 22,453,014	$ 18,794,016
NET WORKING CAPITAL	$ 18,527,683	$ 17,740,352
ratio current assets to current debt	$2.97	$3.37
UNITS IN OPERATION		
retail stores	222	202
wholesale units	10	10

Since June 25, 1955 Winn & Lovett has acquired all of the operating assets of Edens Food Stores and Ballentine Grocery Stores consisting principally of 49 retail food stores located in South Carolina. In addition, the Company has entered into an agreement with Dixie-Home Stores under which it is contemplated that, subject to approval by the stockholders of both companies at meetings to be held in the latter part of October 1955, the operations of Dixie-Home Stores will be merged with Winn & Lovett. Dixie-Home now operates 117 retail supermarkets in North Carolina, South Carolina and Georgia.

FASTEST GROWING FOOD CHAIN IN THE SOUTH

There Is No Discount Rate

B. W. DEMPSEY, S.J.

THE FINANCIAL PRESS HAS for some months now carried repeated observations on the rehabilitation of monetary policy, as distinct from fiscal policy and direct controls., These observations assume, correctly, that monetary policy has been in moth balls for just about twenty years. Its resurrection, variously dated, consists primarily, and practically exclusively, in the employment of a Federal Reserve Discount Rate that is not merely nominal.

Two things are involved here. One is the action taken by the Federal Reserve System and the objects thereof. The other is the interpretation placed on such action, by financial commentators and analysts, but most of all by managers of businesses (not to mention bankers) who are not conversant with the detailed operations of the monetary apparatus. Ultimately, the actual effects of such change by the Federal Reserve Banks largely depend upon the actions of such managers.

Any genuinely informed financial analyst should not find anything new in what is said here but some seem not to advert to it. But many mature business men whose concept of "the discount rate" was derived from an unrevised text book on money and banking published over fifteen years ago will be thinking about something that does not exist.

"The" discount rate which set the tone of monetary analysis flourished in London from 1875 to 1914. In essence a merchant or producer sold a bill of goods for which he received in payment a promissory note for 60, 90 or 180 days, the note bearing in greater or less degree evidence of the transaction from which it emerged. The merchant had the option of holding the note to maturity or, if a favorable employment of funds presented itself, of selling it to any willing buyer. The buyer was typically a note broker.

Now for such a transaction, discount was not only the simplest but practically the only way to handle it. The amount on the face of the bill was determined by a mercantile transaction; the amount determined by the market price for some commodity. If the bill was to be sold, discounting its face value at the appropriate rate reduced the transaction to its lowest terms, simplified documentation and record-keeping and was satisfactory all around.

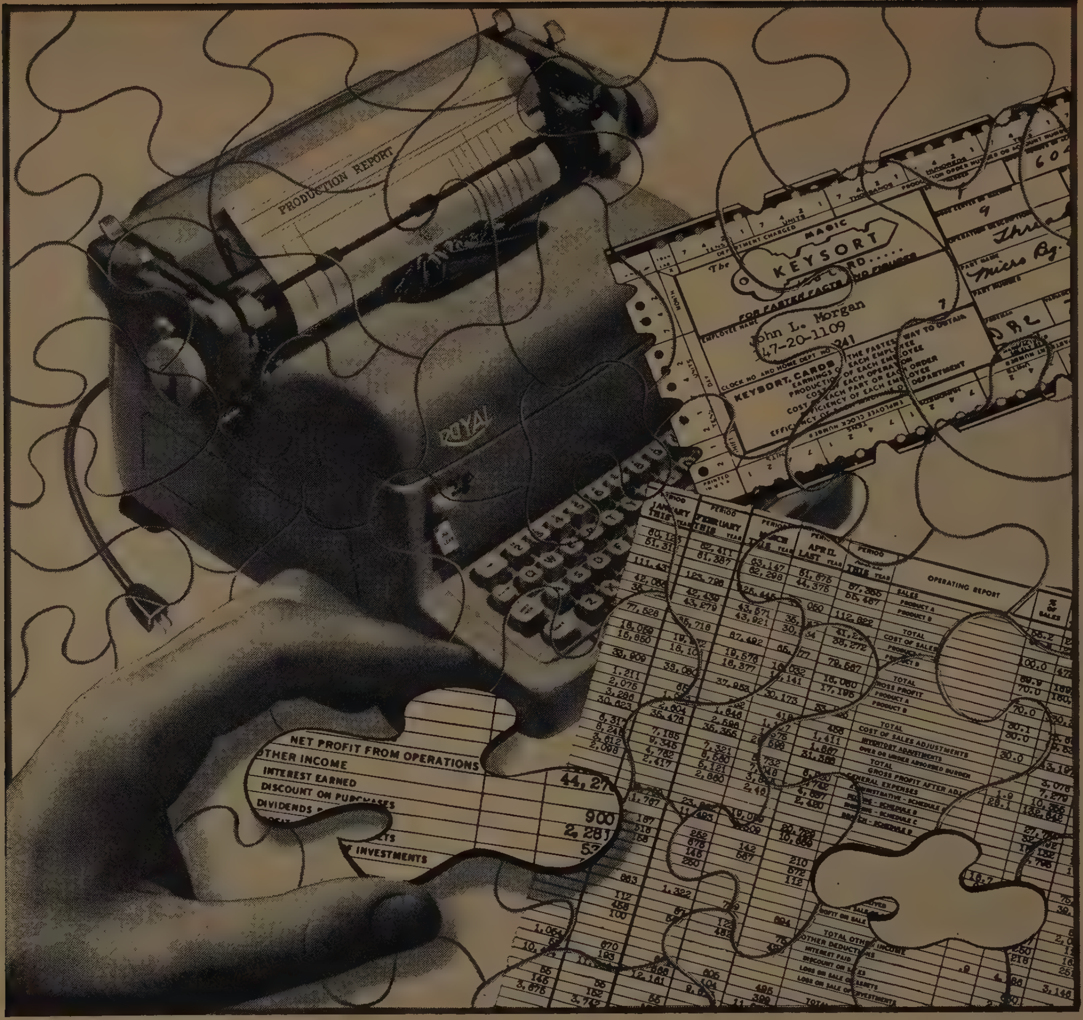
The broker had the same option as the merchant. He could hold the bill to maturity for the interest earning or if he saw further use for his funds could sell the note to any willing and responsible buyer, chiefly to the Bank of England, and in any case on terms which the Bank of England dominated.

Observe in such procedure the direct action of the discount rate. First of all, the bill in question arises outside the banking system. It is based on merchants' analysis of price and demand. The number of bills available depended in the first instance on the whole complex of business conditions in particular industries, not on purely financial factors. Secondly, the attractiveness of the bill as a purchase by the broker, i.e., the likelihood that it can and will be paid, was based as much on the broker's own judgment of conditions in the particular industry as on his view of money markets. Thirdly, the merchant's willingness to sell the bill and at what price was of one piece with his appraisal of trends within his own industry. When he sold the bill, he was paid in cash and was confronted with the immediate decision as to whether to buy another bill or to sit tight. His decision, based on a careful and knowledgeable appraisal of conditions in his own industry, determined whether or not more bills would be available in future. His judgment as to the state of his own industry determined the demand upon the reserves of the Bank of England. No action of the Bank of England necessarily determined his demand upon them. If in the judgment of the bill broker the demand was sound, he was willing to finance the supply; if the Bank of England agreed with him, very good, he could pass the burden on to them and take his margin quickly. If they did not agree with him, nothing was lost and he could afford to hold on.

Contrast with this procedure our present arrangements. A bank has with its Federal Reserve a stock of Government securities. Depending on geographical factors, in a very brief time the member bank can supply the Federal Reserve with accurate descriptions of the appropriate fraction of its holdings and get a note to the Federal Reserve for a loan or "advance" secured by these Government obligations. The transaction bears no relation to previous business transactions. Its potential limits are a function solely of the unwillingness or inability of the Government to balance the budget in the past.

Nor is there any reason for discounting the note. Its face value is not determined by variations of market price for commodities resulting in odd values on the face of true commercial bills which make the discounting technique convenient. The note can be written for round sums on which interest is readily calculated. Nor is the note ever going to go to market. The Federal Reserve rarely has a buyer for such a note. Discounting a note had its chief convenience in its simplicity; an endorsement, a payment and the note was sold like a piece of merchandise and the new owner took it away. The notes now possessed by the Federal Reserve are not going to change hands.

What we are dealing with is a rate of interest as a price on Reserve Funds. The value of the security behind these loans is itself in no small degree a function of Reserve Bank policy. The process is about as far removed from the market as it could be and still have business significance. Words are arbitrary symbols but they acquire a penumbra of connotation. When that connotation has lost its truthfulness, a new word will aid understanding. The rate of interest on Reserve Funds is not a Discount Rate.



there's no puzzle when MANAGEMENT can fit the pieces

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If you are interested in seeing the full report of Royal McBee for the fiscal year ended July 31, 1955, write Secretary, Royal McBee Corporation.

SUMMARY OF RESULTS

for year ended July 31, 1955, compared with previous year

	1955	1954
Income from Sales of Products, Services, etc.	$84,694,569	$84,398,114
Net Profit after Depreciation but before Federal Taxes on Income	$ 7,446,067	$ 6,304,121
Provision for Federal Taxes on Income	3,813,000	3,513,000
Net Profit after Depreciation and Provision for Federal Taxes on Income	$ 3,633,067	$ 2,791,121
Earned per Share—Common Stock	$2.45	$1.83

(After Year-End Audit)

ROYAL McBEE CORPORATION

2 PARK AVENUE, NEW YORK 16, N. Y.

"If You Are So Smart, Why Are You Not Rich?"

ROBERT I. CUMMIN

As a first step in answering the question "Why are we not rich?", we must ask ourselves, "Do we *deserve* to be rich?" My contention is that we can be first-class analysts without necessarily entering the elite circle of people who consistently make money in the market. We can also be first-class analysts without being good salesmen. However, if we find ourselves outside both groups, the unflattering truth is that we can only expect to get an adequate salary for performing a service function. And this service, while requiring more ability and training than garbage disposal, is somewhat less essential to the economy.

RICHES BASED ON THE ANALYST'S ADVICE

Even when our work is primarily as investment advisor rather than analyst, our client too often becomes rich through making his own investment decisions, basing them on our facts and analysis; he is not too interested in our opinions. Furthermore, our advice to clients, averaged out over the years, may not have been so successful as we remembered it, human nature being what it unfortunately is.

"WHERE ARE THE CUSTOMER'S YACHTS?"

The Financial Analyst breaks down into four main kinds of expert:

a. Reporter
b. Analyst
c. Decision Maker
d. Salesman

All of us are presumably Reporters and Analysts; comparatively few are Decision Makers, and Salesmen as well. The Decision Makers and Salesmen are in the greatest demand, but they are scarce and will remain so because their qualifications far exceed those of the first two types of expert.

Almost any one who has a reasonably broad education and a reasonably high level of intelligence can, with training, learn to gather the essential facts on a company or an industry, to analyze them, and to present his analysis in understandable form. The junior analyst can collect published sources of information. He can interview company management, which, being familiar with such questioning, may even prompt him if he forgets to ask some of the standard questions. With a minimum of supervision from his elders he can produce a literate and usable report. At this point the budding junior feels that he is unappreciated and underpaid.

The fact is that his economic worth is rather low at this stage. As he gains background and experience, he will be able to work much more quickly, and his output will rise. This makes him worth a lot more, but he is by no means priceless. His opinion as to whether a stock should be bought or sold is still not worth much, or at any rate is not greatly valued by those making the actual decisions based on his work. He is now, however, a staff expert and is compensated as such. And there he stops unless he can advance to the role of Decision Maker or Salesman (at least to the point of himself strongly influencing the decisions of others).

JUDGMENT IS BASED ON KNOWLEDGE

Let us next examine the qualifications of the effective Decision Maker. His great asset is competent judgment based on knowledge and experience. His decision-making is analogous in many ways to the running of a business. Like the business manager he commands large amounts of capital, which he tries to direct to optimum use. The consequences of his decisions, good or bad, are often quickly and clearly demonstrated, so that his responsibility is clear. A wrongly priced underwriting, a disastrous stock purchase, will land on his doorstep at least as quickly as a correct decision. On the other hand, a major corporate decision on diversification or capital expenditure may take years to be proved right or wrong. The Decision Maker's responsibility is sometimes so overwhelming that he takes refuge in committee action—a course comparable in my opinion to diluting asses' milk with water.

In order to make competent decisions in the fantastically complex investment field, the Decision Maker must synthesize a prodigious amount of information. While he can use the reporting and analysis of others, he needs in his background the specialized experience of the Reporter and the Analyst. Furthermore, he has to be able to look at the whole investment picture rather than a few securities or companies or industries. He must be able to draw on wide personal experience with industry and the financial markets if he is to arrive at decision rapidly. Finally, he must be something of a Salesman—to sell himself as a competent authority, or to persuade a client either as advisor or as commentator. All this adds up to broad experience, for which there is no substitute.

THE NECESSITY OF A DIVERSIFIED BACKGROUND

The Reporter and Analyst, however competent, can only acquire this background of experience over a period af time. Time alone, however, is not sufficient. Too often in doing our job we Analysts become too specialized, with the result that our experience deepens but does not widen. A public utility expert may say with great authority which stock in his field is most attractive, but it does not follow that he knows whether an oil stock may not be still more attractive. He may also end up with a bias in favor of public utilities that will never leave him. It makes sense, therefore, for the ambitious Analyst to set for himself from the very beginning a determined course that will take in the widest possible acquaintance with different branches of company and industry analysis and with the many facets of the securities markets.

The Analyst who has the pertinacity to work at acquiring this diversified background until he is paid not for what he does but for what he knows will find that he has made a long-term investment in knowledge, an asset which can be sold again and again without being depleted.

ANALYSTS SHOULD HAVE SENSE OF TIMING

Other important qualifications of the Decision Maker are less likely to be achieved by conscious effort, as they are more closely bound up with individual personality. In addition to wide knowledge, the Decision Maker must, in making his decisions, have resoluteness, forthrightness, and a sense of timing and values. He must be able to accept his heavy responsibility. We must give the successful Decision Maker credit for some sort of flair or genius that resides in him alone and that experience can only help but not create. A similar intangible will be found in the personality of the top-notch Salesman. Intangible personality characteristics are reflected in the different types of successful investors—those who excel in the quick trade, the radical speculation, and those who are equally successful in reaching their goal by long-range investment in highly respectable securities.

The economic worth of the Decision Maker and Salesman is not easy to measure with certainty. However, it is plainly high relative to that of the Reporter and Analyst. Part of it is direct—the ability to improve the efficiency of capital—and part is indirect—the scarcity of qualified individuals. Economic worth is a measure of what compensation the individual can expect; direct economic worth measures what he can expect to do with his own investments; direct and indirect economic worth measure what he can expect as an employee directing the capital of others.

THE "DECISION-MAKER–SALESMAN"

The compensation of the Decision Maker and Salesman tends to come closer to economic worth than the compensation of the Reporter and Analyst because it is easier to demonstrate the economic worth of the former group. The Decision Maker with a leavening of salesmanship can get command over the largest possible amount of capital. Salesmen in almost every field can get what they are worth or close to it.

The Decision Maker, if he is a good one, stands the best chance of any of us of becoming rich through his own sagacity. But even he is by no means priceless or indispensable; people can easily get on without Decision Makers for a long time. The Decision Maker's principal competition comes from the far more numerous group we may call Non-Decision Makers.

The Non-Decision Maker, often an excellent salesman, administers a pile of capital (usually other people's money) by making as few decisions as possible. He works best with a committee of like mind. Since he makes few far-reaching decisions, he is seldom shown up as having been wrong. His performance is seldom audited to the extent that he can be indicted for missed opportunities. As Analysts, we are all familiar with the corporate management that, administering a successful enterprise built up by more aggressive predecessors, wraps itself in the flag of conservatism and happily does nothing. We know too what the end result is likely to be.

The Non-Decision Maker may lack the background or the temperament for making effective decisions. Although he may command a high level of compensation in the financial markets, there is no reason to expect that he will do as well with his own investments as the Decision Maker.

ABILITY TO MAKE DECISIONS

I have tried in the foregoing to show that the goal toward which we Financial Analysts should strive for ultimate success is that of becoming a Decision Maker who is also a Salesman. I have set forth what I deem to be the qualifications of the successful Decision Maker. In addition to intangibles of personality, these comprise judgment and ability to make decisions based on the widest possible experience in all facets of the financial markets. To achieve this diversified experience I suggest conscious and never-ending effort on the part of the ambitious analyst. Those of us who are seniors or employers may help the juniors achieve this experience and thus repay in the only way we can those who once helped us. Thus even if we can not all become Decision Makers, and rich Decision Makers at that, we can all try—and we will be the better for it. As Shakespeare said: "The fault (deere Brutus) is not in our Starres, But in our Selves, that we are underlings."

PACIFIC GAS and ELECTRIC Co.

DIVIDEND NOTICE

Common Stock Dividend No. 159

The Board of Directors on September 14, 1955, declared a cash dividend for the third quarter of the year of 55 cents per share upon the Company's common capital stock. This dividend will be paid by check on October 15, 1955, to common stockholders of record at the close of business on September 26, 1955. The Transfer Books will not be closed.

K. C. Christensen, Treasurer
San Francisco, California

Stauffer
CHEMICALS
SINCE 1885

STAUFFER CHEMICAL COMPANY

DIVIDEND NOTICE

The Board of Directors has declared a dividend of 40¢ per share on the common stock payable December 1, 1955 to stockholders of record at the close of business November 17, 1955.

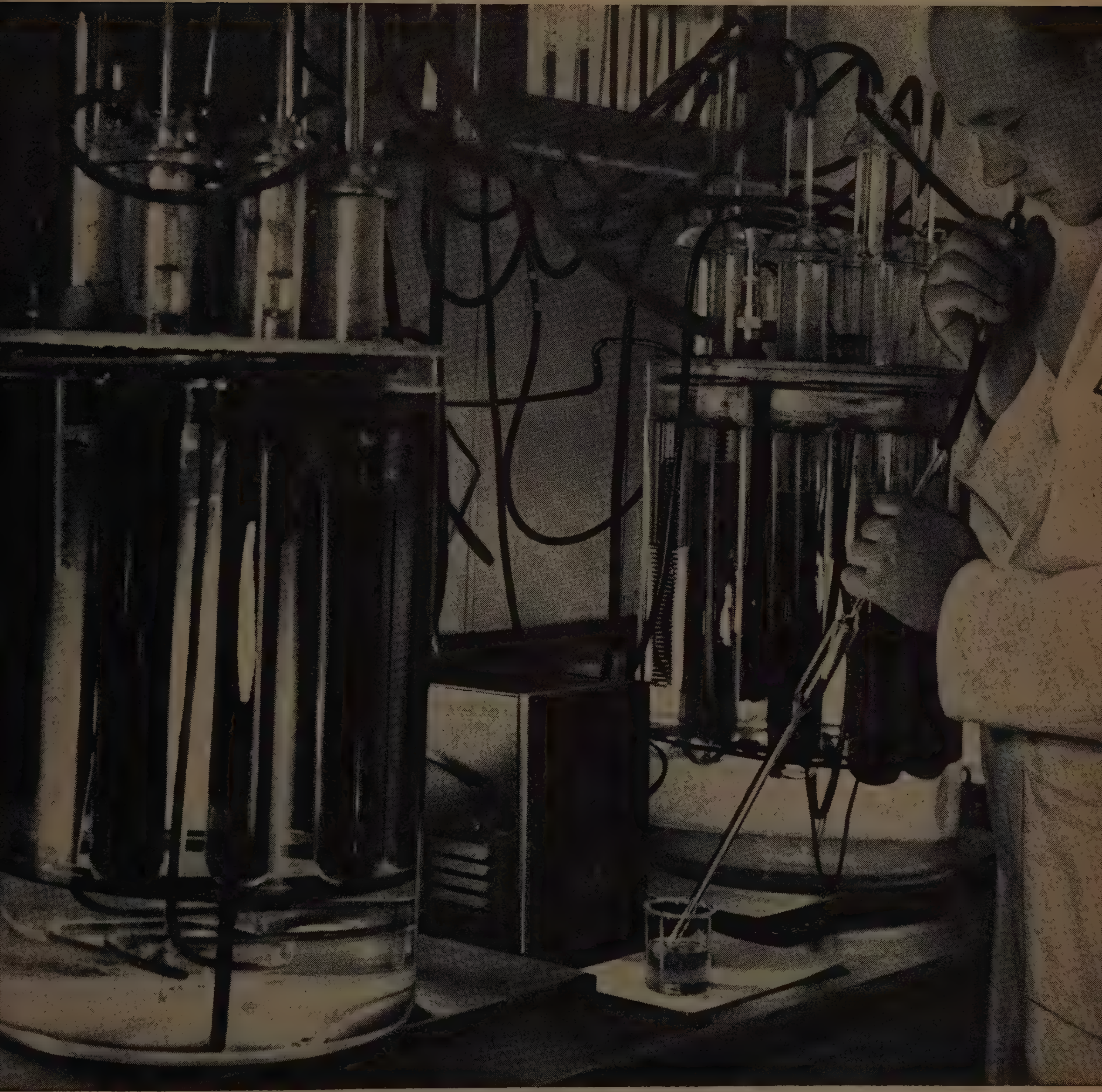
Christian deDampierre
Treasurer

A regular quarterly dividend

of 30c per share has been declared by Daystrom, Inc. Checks will be mailed November 15th to shareholders of record October 27th.

DAYSTROM, INC.
ELIZABETH, N. J.
Electrical and electronic products
Modern furniture

GOING PLACES *into a drop of oil with Cities Service...*



Cities Service researchers enter the minute world of the molecule and come out with new and better products . . . for example, 5-D Premium gasolene and 5-D Koolmotor oil. The superior performance of these new products has boosted sales of Cities Service gasolenes at double the rate of industry demand.

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Porcelain Enamels: Past, Present and Future

GLENN A. HUTT

PORCELAIN ENAMELS, ONCE CONSIDERED only a finish for art objects, graduated from the artists' laboratory into our modern industrial porcelain enameling plants. It is now thought of as an inorganic finish fused to metal at temperatures anywhere from 1000 degrees F to 1600 degrees F, depending on the metal, type of enamel and purpose or use of the finish. The key word in this definition is "*inorganic*"—literally meaning something that cannot be destroyed.

There are two types of Porcelain Enamel: (1) *Wet Process*—Here the enamel is suspended in water and applied to the metal (sheet iron, cast iron, aluminum, copper) by spraying — dipping — or slushing, and fired or burned in a furnace. (2) *Dry Process*—In this method the enamel powder is dusted onto the hot casting in an even and uniform coating, then inserted into the furnace, where the enamel fuses down into a glassy surface. Several dustings or applications of the enamel powder are made, with the casting being reinserted into furnace after each dusting. This article will cover only the first—Wet Process Porcelain Enameling.

HISTORY OF PORCELAIN ENAMELS

The history of Porcelain Enamel goes back many centuries—in fact way before the birth of Christ. Enameling as an art is probably of Western Asian origin and there is much evidence that the early Egyptians, Assyrians, Greeks, Byzantines, as well as Chinese and Japanese, practiced the art. It spread throughout Europe and England. In many of the large and important art museums of this country and abroad will be found Porcelain Enamel art objects thousands of years old, yet they still retain their sharp outlines and beautiful lustre. All of which proves the lasting durability and beauty of this finish. Only porcelain or vitreous enamel could stand this test of time—an important reason why this finish is called — "Lifetime Porcelain Enamel."

Metals used for early art objects were first gold, then silver, bronze and copper. The first enameling on cast iron (dry process method) was undertaken in Bohemia around 1830. Along about 1850 enamels were applied to sheet iron in Austria and Germany. During this period great advances were made in the chemistry of raw materials, as well as important discoveries in the improvement of iron and steel.

The first Porcelain Enamel in the United States was used on kitchenware (sheet iron cooking utensils) by Grosjean Company of New York and Vollrath of Sheboygan, Wisconsin—this was around 1857, or about 100 years ago. Kohler Company, Kohler, Wisconsin, was the first plant to enamel cast iron bath tubs. Moore Bros. Co., Joliet, Illinois, sold the first line of Porcelain Enameled stoves in 1890; these were imported from Germany. Buckwalter Stove Co., Royersford, Pennsylvania, was the first company to install its own Porcelain Enamel stove department — all enamels, equipment and other materials came from Germany.

The first refrigerator company to install its own enameling department was Gibson Refrigeration Co., Greenville, Michigan. The first washing machine plant for porcelain enameling was ABC Washer Company, built in 1927.

Thirty years ago Porcelain Enamel was used on such products as

Stoves—Wet Process Cast and Sheet iron
Refrigerators—very little
Washing Machines—very little
Cooking Utensils
Hospital Ware
Table Tops
Signs
Bath Tubs—dry process
Sinks—dry process
Lavatories—dry process
Jobbing items

Time altered processes and one finds the sheet iron enamels of the 1920's were of high maturing temperatures —ground coats around 1650–1700 degrees F, and cover coats 1580–1650 degrees F. There was no (or little) opacity in the frits at that time and these were what is termed "clear-type."

Up to 1928–1930, fluorine in the frit and tin oxide in the mill additions were the opacifying agents. From 1930–1938 antimony oxide and sodium antimonate were used in the frit for opacity and in the mill additions tin oxide, opax, lufax and other patented opacifiers. From 1938 to 1947 zirconium oxide in some form was used in the raw batch and mill additions of uverite, lufax and others. From 1947 to date, for opacity, titanium oxide is used in the raw batch and smelted into the frit.

These changes and improvements in opacifying agents—both in the raw bath and mill additions—mean whiter enamels and more opaque enamels, with much thinner coatings. Thirty years ago thicknesses of coatings were four to five times what they are today. Too, the Porcelain Enamel today has better surface, higher scratch resistance, excellent acid and alkali resistance—plus lower maturing temperatures and better workability.

Let's take a quick trip through one of Ferro's many frit plants and see how this material is made. First, we have our raw material storage section. The common materials used are:

Silica
Feldspar
Borax
Soda Ash
Soda Nitrate
Cryolite
Fluorspar
Titanium Oxide
Zinc Oxide
Calcium Carbonate
Cobalt Oxide
Nickel Oxide
Manganese Oxide
Barium Carbonate
Potassium Carbonate
Lithium Carbonate

There are many other inorganic chemicals—probably totalling over 50. These raw materials are accurately weighed out into 2800 lb. batches and then conveyed to automatic mixing machines, where they are intimately mixed for several minutes and then are ready for the smelters. A smelter is a special type furnace, lined with high-grade refractory and operated in temperatures ranging from 2200 to 2600 degrees F for most frits.

Frit can be either smelted (A) continuously, or (B) intermittently. This depends on several conditions.

(A) In *Smelting Continuously* the raw batch is placed in a storage hopper or bin on the cold end of the smelter and two water-jacketed revolving screws shove the material into the hot smelter. The chemicals melt into a viscous homogeneous glass which moves to the front or discharge end of the smelter. This hot molten glass flows out through a small opening and can be handled in two ways:

1. It can be quenched in a water bath which suddenly cools the glass and breaks it into small particles, or—
2. It can be dropped into a continuous stream onto two water-cooled revolving rolls of about a foot in diameter. These rolls will squeeze the molten stream of glass into a flat sheet of glass 12 to 15 inches in width. This sheet of glass drops down and cools rapidly, breaking up into tiny particles of glass called "Flakes."

(B) In *Smelting Intermittently,* the molten glass batch is dropped into the water—quenched and then dried.

All Porcelain Enamel frit is packed in 100-pound bags for shipment to the user.

The Porcelain Enamel frit is received in the customer's plant and is weighed out accurately along with special type of clay—coloring oxides if needed—water and inorganic chemicals milled in a porcelain block-lined ball mill with porcelain balls. These ball mills hold anywhere from two-pound batches up to 5,000 pounds. The porcelain blocks are made from a specially pure type selected clay and the porcelain balls are of the same composition and vary in size from small pebbles up to balls for the larger type mills which can be as large as baseballs. These ball mills revolve at an average rpm of 20 to 25 and it takes about four to five hours to grind a batch. The material comes from the mill in a paint-like consistency normally referred to as porcelain enamel slip or milled enamel.

The usual method of producing color is to add inorganic coloring oxides or compounds to a clear or white type of frit in the mill addition. Recently, another way of producing colors is to introduce into the raw match metallic oxides which are smelted into the frit, producing the color desired. White has been the predominant porcelain enamel finish in recent years but present trends have placed strong emphasis on colors. The conventional processing generally involves the application of a blue color ground coat on sheet iron followed by the application of a cover coat for color, corrosion resistance, and abrasion resistance.

The enamel is applied to the metal surface which has been put through a pickling process. This pickle process is the cleaning of the surface by a chemical cleaner and etching produced by immersing in an acid and then neutralizing, rinsing and drying.

Ground coat milled enamel is applied by dipping, draining or by spraying, covering both sides of the iron. The water is dried from the coating at 200 to 300 degrees F, which is followed by the firing or fusing of the coating in a gas, electric or oil type fired furnace at temperatures in the range of 1400 to 1550 degrees F for sheet iron, and from 975 to 1000 degrees F for aluminum.

In the conventional process—white or color—the parts which have been fired in ground coat are generally sprayed on the face side and dried, then fused in the same manner as employed for the ground coat.

LOOKING AHEAD FOR PORCELAIN ENAMEL

Market research indicates that the Porcelain Enamel frit business has more than doubled since 1941. Another way to look at it is this: Estimates show that in 1940 $130 million of Porcelain Enamel products were produced, as compared to $382 million in 1953. Indications are that this figure can go to $488 million by 1960.

These data, then, prove that our industry is growing and moving, which is most encouraging. It may well be called a growth industry, unfolding many new uses and satisfying needs. Today there is over 3½ times more enameling capacity in this country than there was in 1940, and the well-wearing qualities are becoming more evident. A look at the progress which has been made in porcelain enameling during the past 20 years shows a 74% reduction in the thickness of enamel to produce a white finish. In other words, we are getting more miles per gallon, plus many improvements in the properties of the ultimate finish. The industry has grown during the past 15 years, equipment has been improved, and new processes loom.

One of the largest producers of home appliances stated in their latest annual report: "In the years between now and 1963 the expected growth in the company's business will require doubling the volume of goods produced." Home appliances use Porcelain Enamel and this means further expansion for this finish in this type of utensil

There are now around 165 million people in the United States. Predictions are that by 1960 there will be 175 million and by 1965 — 185 million people. These increases in population mean more homes—more schools—more hospitals—commercial and industrial buildings—all offer great potentials for products which are porcelain enameled.

Quoting from *Wall Street Journal,* May 17, 1955: "Home building will continue for years to come 'at a very high level—as high as it is today or higher.' That's what Home Finance Chief Albert Cole told a meeting in Washington of the National Association of Home Builders. Earl Smith, N.A.H.B. president, agreed with Mr. Cole. He said 1.3 million homes will be built this year, and in the 1960's and 1970's the rate may reach 2 million annually."

An inspection of our future from the steel producers' position (as steel goes, so goes Porcelain Enamel) shows that in 1940 eighty-two million ingot tons of steel were produced. Now the steel mills can turn out 124 million ingot tons per year. By 1965 we will need a minimum of 145 million tons. This last estimate is based on the fact that today three quarters of a ton of steel is used per person. Ben Fairless (former Chairman of the Board, United States Steel Corporation) stated: "If per capita consumption of steel remains where it is and population estimates for the next 20 years are correct, we will need 14 new plants the size of the new Fairless Works."

A brand new material is Porcelain Enamel on Aluminum. In 1940 about 202,000 tons of primary aluminum were produced; in 1954 over 1,000,000 tons were turned out. The industry is still expanding.

Business Week, August 27, 1955, quotes: "Aluminum quite some time ago left the poundage class and became a tonnage metal . . . capacity has more than doubled in six years . . . expansion now in the works will lift it to 1¾ million tons . . . proposed new capacity involved in dickerings with O.D.M. would bring the total over 2 million tons."

There is a tremendous potential here for Porcelain Enamel. The Porcelain Enamel Institute has set up a new Aluminum Division to study the market trends, processing methods and the future. Basic primary aluminum producers are optimistic on the future of Porcelain Enamel on Aluminum.

The United States Department of the Navy is using Porcelain Enamel bulkheads on the U.S.S. Forestal and the U.S.S. Saratoga, two of the largest airplane carriers in the world, and plans a rehabilitation program on five destroyers, using Porcelain Enamel bulkheads. The reason the Navy prefers Porcelain Enamel on Aluminum for bulkheads is the savings in weight, the ease of erection, and the fact there is no excessive maintenance cost. Porcelain Enamel on Aluminum does not have to be painted and this is a problem on all types of ships, whether Navy or merchant vessels. Another important point is that the Navy is recommending the use of five different pastel colors, which helps the morale of men on board.

Ferro has just built an interesting machine for the porcelain enameling of .005 inch thick aluminum foil *continuously.* This material takes a coating of porcelain enamel .003 inch thick and there may be a new field for such a product.

ARCHITECTURAL PORCELAIN ENAMELS

Another new market that is opening up is Porcelain Enamel for architectural use. The *Architectural Forum* (March 1955) says: "When the *Forum* last reported on the modern curtain wall (March 1950) it could find only one example in Porcelain Enamel Steel. Today, there are dozens of varieties, each representing the fabricator's own idea of the ideal curtain wall."

Examples of Architectural Porcelain Enamel can be found in these buildings:

General Motors Technical Center, Detroit, Mich.
Fram Corporation building, East Providence, R. I.
Clemson College, Clemson, S. C.
Mile High Center, Denver, Colo.
RCA Victor offices, Camden, N. J.
Ford Central Staff Building, Dearborn, Mich.
County Court House, Lake City, Mich.
Hotel Statler, Hartford, Conn.
Hotel Statler, Dallas, Texas.

and many other buildings being erected, including schools, industrial buildings, offices and other types of commercial structures.

Also on the drawing boards of many architects will be found designs already being worked out using Architectural Porcelain Enamels. Architectural Porcelain Enamel construction has many advantages over conventional building materials. Conventional masonry construction weighs over 80 pounds per square foot in some types of buildings, whereas the Porcelain Enamel wall 1¾ inches thick will weigh only 8 pounds per square foot, plus a better insulation value.

Remarkable strides and improvements have been made in the past years in Process Control and Process Control Methods. You will find these improvements in:

1. Steel mills for producing better enameling iron.
2. Frit manufacturers' plant for higher quality frits.
3. Basic raw material producers' plants.
4. Fabricating and Porcelain Enameling plants.

There will still be tighter Process Control Methods brought about by new techniques—instrumentation—and the necessity for same.

FUTURE PORCELAIN ENAMEL FRITS

Porcelain Enamel Frits for the Future will include many new improvements and following are some of the important ones which are now in the research and development laboratories of frit producers:

1. Lower temperature Porcelain Enamel on Steel (in the 1200–1250 degree range).
2. Elimination of blue ground coat, enabling the producer to apply white or color direct to the base metal. This will give a thinner coating, a much more durable coating and a more competitive coating as to cost.
3. New methods of suspending frits and new mill additions to improve enamels.
4. More workable enamels.
5. Premilled frits—customer will only have to blunge or mix the dry frit powder for only a matter of minutes where it takes hours now.

Along with improvements in basic materials, we will find new improvements in equipment for the future. A few of these improvements would include:

1. New methods of cleaning and treating the steel for producing one coat finishes, more durable finishes, more competitive finishes.
2. Flow coating mroe parts.
3. Dipping machine for more parts.
4. Automatic and mechanical spraying.
5. Roller coating of flat parts.
6. Electrostatic spraying.
7. Improvement in furnaces—burning techniques.
8. Milling and blunging of enamel.
9. Transportation of enamel slip in the producer's plant.

Porcelain Enamel finish—the modern "Lifetime Finish"—has come a long way. This finish, which was once a truly art material, now can be classed as a modern industrial finish. Its future looks bright and you will be hearing a great deal more about modern "Lifetime Porcelain Enamel."

Hauling Crackers and Cookies For Nabisco
I.F.C.'s New Volume★Vans Cut Costs By Handling

5000 EXTRA POUNDS PER TRIP!

FULLY LOADED
CONVENTIONAL TRAILER
CARRIES **22,836** LBS.

WHEN FULLY LOADED
FRUEHAUF Volume★Van
WILL CARRY **27,911** LBS.

Side by side at the loading dock of Nabisco's Chicago bakery a new Fruehauf Volume★Van and a conventional-type Trailer are being loaded with crackers and cookies. The Volume★Van carries over 5,000 pounds—or 22%—more than the older Trailer.

Shipping Men In *Many* Industries Are Reducing Costs By Loading Thousands of Pounds of *Extra Freight* Per Trip Into The New, Bigger-Capacity Fruehauf Volume★Van!

ON A NABISCO HAUL of crackers and cookies, Indianapolis Forwarding Company is carrying an *extra 5000 pounds per trip* since the introduction of new Fruehauf Volume★Vans on the run. This is but one tangible example of the shipping efficiency gained with higher-capacity Volume★Vans. In some cases added payloads of 35% or more have been recorded.

If you ship a product—by Trailer or other means—economy, efficiency, and other beneficial results are in store for you upon investigation and installation of the Trailer that's "5 Years Ahead," the Trailer that gives you *maximum* payload day after day. In your profit outlook and from a standpoint of sales volume you stand to gain now and in the long-range future from the Volume★Van's advanced design.

Write today and request the illustrated Volume★Van catalog, and the book of Trailer applications in *many* industries, entitled "New Ways To Profit." You will have an immediate answer, with no obligation.

World's Largest Builder of Truck-Trailers

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"ENGINEERED TRANSPORTATION"

Successful Investing

NORVIN R. GREENE

SUCCESSFUL INVESTING demands much thought, much study, and infinite patience. A good steward of capital (be it his own or that of others) seeks safety, income, and increment. Business, real estate, mortgages, loans, bonds, and stocks, all offer avenues of employment for capital. Surplus of capital may, of course, properly be spent for charitable or educational ends.

Investment in any of the gainful channels has its special advocates. Mortgages, loans, and bonds are all fixed-dollar vehicles. Fixed capital and income provide greater purchasing power in periods of marked deflation or depression, but conversely suffer embarrassing contraction of purchasing power in the more protracted periods of inflation. The long term trend of diminishing value of currencies has been one of the factors leading to growing investor demand for ownership of equities. During the past ninety-five years the purchasing power of $1.00 has declined to approximately 25c. Although there have been interruptions, a chart of the dollar's purchasing power shows a marked over-all down trend.

A person's own business, for obvious reasons, is an equity investment suitable primarily to himself. There are different enterprises, of which real estate seems to be attractive to many, although rewarding real estate lacks ready marketability. Each share of stock in a business is identical with every other share and one business may have as many as two hundred and seventy-five million shares. The high degree of marketability, and the availability in small or large amounts, make stocks a favorite vehicle for a growing multitude of investors.

Readers of the *Analysts Journal* are likely to have already elected shares as their principal avenue for equity investment. That appears reason enough for considering a special policy for employing capital in stocks.

DAY-TO-DAY BUYING AND SELLING

Day-to-day buying and selling of shares for a profit has always had its advocates. These are fewer when short term capital gains are taxable at ordinary income rates. The impetus for reaching buy-and-sell decisions may come from charts of stock prices, from news developments, from Wall Street gossip, or from an astrologer.

Some will advise an examination of companies and industries, in the hope of forecasting prices of individual stocks six to twelve months ahead. There are others who will encourage study of the business cycle so as to buy and sell in anticipation of changes in long term business trends. Within the adult life of many readers occurred the disastrous deflation of 1929–32, the severe business setback for 1937–38, and the 1946 post-war drastic readjustment in stock prices. The investor who could anticipate each of these cyclical fluctuations could have done well. But how many did foresee each of these? Still another approach is the study of stockholder emotional reactions, in the hope of anticipating them long in advance. At least one book has been written on the subject.

There are many in Wall Street who try to steer their capital in one of the above channels. Much money has been made and lost thereby. A rare individual may possess the intelligence to succeed within one of these frameworks. People like to think they are exceptional or have luck. This may explain why so many play games in which so few win.

There is another framework for investing—one suitable for average people. Few persons want to acknowledge possessing only average capability. Even fewer can exercise patience in terms of years. So what may be readily recognized as just plain common sense is usually considered too prosaic and plodding a course for an impatient mind.

A POLICY WHICH HAS BEEN SUCCESSFUL

Estates of successful people have time and again revealed ownership of shares in companies which have grown importantly in the past ten or twenty years. Investigation is likely to show that continuous holding of these shares was an important key to decedent's wealth. This self-evident lesson is often rejected, on the belief that, while this did happen in the past, today's stock prices are "too high."

STOCK PRICES TOO HIGH?

Stock prices "too high" is not merely a typical reaction of today, but of every day in every year. This fear is so usual a roadblock to successful investing that it may be helpful to examine its validity.

Man's fear of the future never ceases. During World War II apprehension of a post-war business collapse was widespread—New Deal economists predicted ten million unemployed. "Surely," people said, "it is no time to buy anything but Government 'E' bonds."

The World War ended and in 1946 stock prices suffered in anticipation of business collapse. But the depression did not come. So people said it would arrive next year. In 1949 a setback in business did take place. Surely no time to invest in stocks, according to popular belief. But, perversely, the deluge failed to come and with business on the upgrade in 1950 the Korean War broke out. What was to take place after the war? "No time to buy stocks," one heard. And in 1953 the steel industry, operating at 100% of capacity, would in 1954 operate at 70% or less—a frightening prospect!

THE GOOD OPINION OF FRIENDS WEIGHS HEAVILY

The average person, wanting to enjoy the good opinion of his friends, just kept his "E" bonds and his savings bank deposits and municipal bonds, waiting for the "proper" time to invest in common stocks. But over this span of twelve years some of the country's businesses grew enormously—the automobile industry, aircraft industry, aluminum industry, machine tool industry, chemical industry and countless others. Earnings were reinvested in additional and improved plant and equipment, which produced more earnings and dividends grew. As stock prices rose, the value of stocks increased. But countless investors stayed on the sidelines nursing cash and bonds, waiting for the "right" time to buy stocks.

THE "RIGHT" TIME TO INVEST

There is no perfect time to invest, except in retrospect. And one cannot invest in retrospect. For most investors and for their advisors, trying to time purchase of stocks is like looking for the pot of gold at the end of the rainbow. It is essential to find some more practical approach to the problem of when to invest. And, confounding average public opinion, there is a solution of the problem.

AN OLD MAN'S EXPERIENCE AS AN INVESTOR

Beginning in the nineteen twenties, there was a man who had retired from the wholesale grocery business and was committed to living on his $100,00 of investments. He said he never knew what the stock market was going to do and neither had he ever found in Wall Street anyone who did know. He therefore disregarded "market" and bought, at any time he had funds, those securities which his judgment told him gave him a lot of value for his money. He died some years ago at the age of 84, leaving an estate of millions of dollars. To many, his attitude seems defeatist.

GOOD INVESTMENT VALUES ARE ALWAYS AVAILABLE

Viewing market prognostication as rainbow chasing, provides more time to direct energies toward knowing companies, managements, industries. The growth of the United States business over any longer period has exceeded the most optimistic predictions and there is much evidence to indicate it will continue to do so. Seeking good present value for investment dollars plus promise of increasing future value has been highly rewarding in the past. It seems highly likely to be so in the future. Except for the 1929 period, good investment value has always been available. Consider today the shares of a particular company at current price of 32. Sales of the company's products are enormous and growing. Saturation is many years away. And then there should be a huge replacement market and new products. Earnings of about $3.68 per share in 1954 appear likely to grow to $4.50 to $5.00 in 1955 with a continuation of current rate of sales. Dividend of $2.00 last year can be expected to grow to $2.50 per share this year. Why try to guess what the "market" will do?

TO KNOW ONE'S LIMITATIONS MAY PROVE OF GREAT VALUE

Someone may think the country could have a year or two setback in general business, and earnings of corporations will fall. A possibility any time. Yet the past has proved that when a recession is over, business resumes its progress and total corporation earnings return to their previous level, then continue expanding. There are, of course, companies whose earnings do not recover. But wise selection can avoid most of these. The investor who selects well has over the years found himself owning stocks which have not merely doubled but quadrupled and increased in value ten times and more. The investor who could not stand being "so stupid" as to hold shares through times when they were going down in price has lost huge gains in capital and income.

Multiplication of income and capital need not be the only satisfactions from investing in exceptional companies for the long term. Many who embark on a program of becoming partners in well-managed growing businesses become interested in their companies. They come to know the products, location of plants, competitors, top management personalities. To watch businesses develop can be absorbing.

It is true that the investment advisor is in a position to gain the most satisfaction from becoming partner in a number of enterprises. The advisor can spend much of his time learning about the personality of his companies. Lack of time need not prevent anyone from at least sharing this kind of satisfaction.

CONCLUSION

The average investor will think that he need not be content with so "dull" an investment program as outlined. Having superior intelligence, he can outwit other investors, sell to them at high prices and buy from them at low prices. There are innumerable persons in Wall Street who are anxious to encourage this viewpoint, and they may profit from those who attempt it. It is within one's choice to accept "dullness" as part of the price of successful investing. The long-term result from this policy can be far from dull.

STANDARD BRANDS
INCORPORATED

Common Stock Dividends

At a meeting of the Board of Directors held today, the following dividends were declared:

Regular quarterly dividend of 50c per share
Extra dividend of 15c per share

both payable on December 15, 1955 to stockholders of record on November 15, 1955.

Preferred Stock Dividend

The Board also declared a dividend of 87½c per share payable on December 15th to stockholders of record on December 1, 1955.

JOHN B. NOONE
Secretary & Treasurer

October 27, 1955.

SMOKING PLEASURE . . . PAST AND PRESENT

Petum optimum Supter Solem
Lemellieur Tabac desous le Soliel
The best Tobacco under the Sun

"The best Tobacco under the Sun!"

In the lively days of Queen Elizabeth I, the tobacco that came to London was, indeed, the "best tobacco under the sun." And the fashionable tobacconists of the time took care to give it the billing it deserved. Their ads were classics of clarity. In sonorous Latin and lilting French, they strummed their single theme . . . and for those who must run as they read, they appended a translation in pure Elizabethanese.

In the 350 years from Elizabeth I to Elizabeth II, tobacco and tobacco products have been improved immeasurably. And for nearly 200 of those years, P. Lorillard Company, founded in 1760, has been leading the way.

Our single-minded devotion to smoking pleasure has brought us new friends every year. OLD GOLDS—regular, king size and filter kings—are today more popular than ever. And KENT, the cigarette with the amazing *MICRONITE* filter, continues as a leader in the high filtration field.

There's only one reason for this popularity . . . for the continuing loyalty of Lorillard customers to *every* Lorillard product, and for the confidence of Lorillard stockholders in the future of their company. It's the result of two centuries of Lorillard leadership in *smoking pleasure.*

P. Lorillard Company

AMERICA'S OLDEST TOBACCO MERCHANTS · ESTABLISHED 1760

Leading Products of

P. LORILLARD COMPANY

Cigarettes

OLD GOLD · *Regular, King Size and Filter Kings*
KENT · *Regular and King Size*
EMBASSY · *King Size*
MURAD
HELMAR

Smoking Tobaccos

BRIGGS
UNION LEADER
FRIENDS
INDIA HOUSE

Cigars

[redacted]
HEADLINE
VAN BIBBER
BETWEEN THE ACTS

Chewing Tobaccos

BEECH-NUT
BAGPIPE
HAVANA BLOSSOM

Book

In this department are summarized books, articles, and documents of outstanding economic or financial interest.

Helen Slade is the author of the book reviews. She will cooperate with members of the Society desiring source material for JOURNAL *articles and for research projects and studies.*

AMERICA'S NEEDS AND RESOURCES: A NEW SURVEY

J. Frederic Dewhurst and Associates
The Twentieth Century Fund
1148 pp, 352 tables, $10

The enlarged second comprehensive tabulation and examination of the American productive system, now and future, will be a necessary reference book for years to come.

America's output may well be $414 billion dollars by 1960. Much of this will be due to the increase in output per man-hour and to the technological progress in inventing new methods. Most of the American way of living has been affected by new techniques, such as widespread electrification, as well as the increased use of the internal combustion engine in agriculture.

The electric power industry, despite rising prices in most segments of the economy, has been able to sell its product at progressively lower prices. Along with what the author terms the "century of electricity, petroleum and the automotive vehicle" came a great influx of new methods and metals. A greater understanding of automation brought a variety of automatic controls, making the possibility of coming automatic factory output a probability.

Modern life, based on metals, gives little thought to the difficulties of living in ages when metal was unknown. Copper came into use six thousand years ago, and years passed before a tin alloy, and bronze were discovered. Other metals such as iron found their way into the manner of life. Steel was followed by variations, new uses and the gratifying of new needs. Then aluminum, zirconium and other varied light metals brought about an age of leisure and high level income. Much of this has been due to new industries which created purchasing power and shares for investments. A table well worth considerable examination portrays "Total Annual Rated Capacity and Equipment of the Basic Industries of the United States, 1920–52." There are most illuminating tables covering chemicals and nondurable manufactures commencing on page 1090.

Capital investments are likely to rise considerably during the next years, probably to between $40 and $45 billion "on the basis of current prices." Breakdown of the requirements of investment capital in several fields brings light to possible trends. Outlays and their results become clear after a study of both the tables and story as set forth. The size of future opportunities for capital investment is well indicated in this book.

There is little in this extensive work that will not bring an answer to some important question. Where there are new processes and products, or where investment capital should flow, is to be found by searching through these pages, and most easily by exploring the tables. Analysts will owe Mr. Dewhurst a debt of gratitude.

QUALITY AND COMPETITION

Lawrence Abbott
Columbia University Press
229 pp, $3.75

This study estimates the degree of the influence of quality competition on price competition. Quality is often difficult for the consumer to measure, unless it is considered in highly specialized industries where the connoisseur type of consumer has been developed. Deviations from perfection are discernible to the expert.

Pseudo-differences may be created by advertising and substitution. By such means powers of accurate perception may be influenced, and illusory or imagined deviations created. The technically unskilled are likely to underestimate real differences, and to be over-discriminating in other respects. This is illustrated by decisions reached by professionals versus unprofessionals in the spheres of music, golf, and certain foods.

Facts such as the above tend to make pure competition in a modern society difficult. Nevertheless the impact of quality on demand can not be ignored, since the exchange of goods emanates from the need of satisfying wants. This places the emphasis on the consumer as a motivating force in kinds of production.

Consumer wants arise from environmental and varied cultural pressures. Some are primary, others derived, and all subject to being altered by full knowledge of the product.

Quality competition means "the simultaneous offerings by independent rival sellers of qualitatively different products." They may have innovations and other attributes which can easily be magnified by selling techniques. It is well for buyers to have access to information which might clarify differences. Uses and wants are not only based on reality of needs, but may be altered by changes and selling methods. In this manner the actual price level can be transformed.

Monopoly, the antithesis of competition, comes about from inadequate substitutes. Changes, it is said, become the spring from which quality competition may arise. Each industry has its own innovations and often substitutes. For this reason controls become associated with dissimilarity.

Conclusions are that quality control exists independently from price competition, yet supplement it, and the price structure is the foundation of most market fluctuations. "Not until both halves are pieced together can a full analysis of competitive forces in a private-enterprise economy be achieved."

THE INTERPRETATION OF FINANCIAL STATEMENTS

Benjamin Graham and
Charles McGolrick
Harper & Brothers, 144 pp, $2.25

A revised edition of *The Interpretation of Financial Statements* brings new essential concepts to the consideration of analysts. By understanding some perhaps overlooked details even the erudite will be better qualified to recognize elements of coming changes in the corporation under examination. For the less skilled the book, short and concise yet containing every known set of facts pertaining to the appraisal of merit, will be a windfall. To those whose training has been meager, the section containing definitions of financial phrases will be a veritable find.

The discussion of securities is becoming more extensive, and it has become necessary to know the terminology. Moreover, intelligent estimates make for successful investing.

SLEEPING BEAUTIES BETWEEN THE SHEETS (BALANCE SHEETS)

William J. Hudson, Jr.
Monumental Press, 16 pp, $1

Just as bed sheets cover beds, so do balance sheets cover the financial anatomy of corporations. They are rewarding to study because their relatively slow changes exhibit more and more reasons for possible profits and mergers.

High taxes plus keen competition have been a contributory force in effecting mergers. Their imminence may be revealed by a study of the balance sheet, where "the real sources of these delightful transactions are to be found." Views of mergers and their impact on other companies are suggested.

Two tables, one showing what has happened and the other merely giving figures that are "interesting" though not recommended, are worth more than a mere glance. This booklet, gay yet steeped in sagacity, makes thoughtful and entertaining reading.

INTRODUCTION TO INTERNATIONAL TRADE AND FINANCE

Lorie Tarshis
John Wiley & Sons, 536 pp, $6.00

For the analyst whose work includes foreign transactions, the policies of exchange rate making assume importance. Just how controls are established, the techniques of enforcement and the impacts of changing regulations, are explained by Mr. Tarshis.

All types of capital movements are described, as well as the manner in which trade may be influenced by money rates. Both private and government transactions are carefully yet simply set forth. Reasons for short and long term capital transfers are examined. Methods of estimating capital movements as well as their consequences make interesting reading. Bond and stock transactions traded in the international market react to interest changes, and altered patterns of investors' attitudes follow the trend of capital flows. Some changes in investor thinking about foreign opportunities are brought about by anticipations of future returns, and by expectations of the worth of home institutions. At times political developments have caused a flight of capital from one land to another.

Means of stabilizing the exchange rate are explained. A short history of reciprocal trade agreements, their workings and repercussions, is valuable. So are the pages devoted to the results of stable trade on all countries.

TECHNICAL SPELLER

Gessner G. Hawley and
Alice W. Hawley
Reinhold Publishing Corporation
146 pp, $2.95

It is unfortunate but true that quite a few people are not skilled in the art of spelling. When technical terms are needed the effort is tremendous and often a failure. "Technical Speller," by dividing words into syllables, listings and suggestions, will bring dexterity to writers of articles, reports and letters. The book will be especially valuable to those whom nature has not endowed with visual memories.

THE NEW YORK SOCIETY OF SECURITY ANALYSTS
will take part in the program of the
JOINT ALLIED SOCIAL SCIENCE ASSOCIATION
meeting on Tuesday, December 27th,
at the Hotel Biltmore in New York City

Noon Luncheon topic:
The Stock Market Outlook
Nathan Bowen presiding
Speakers: Pierre R. Bretey, Shelby Cullom Davis, Robert Wilkes, Richard Lambourne

2:30 P.M. topic:
The Outlook for Certain Industries
Lawrence Kahn presiding
Speakers: Joseph Galanis, John Spurdle, Walter Maynard, John F. Bohmfalk, Jr.

Members will find meetings of the Allied Social Science Association of unusual interest.

RIVER BRAND RICE PRODUCTS

River Brand Rice Mills, INC.

37th Consecutive Quarterly Dividend

The Board of Directors declared a regular quarterly dividend of 30c per share plus an extra of 30c per share and a 10% stock dividend, all payable November 1, 1955, to Stockholders of Record October 7, 1955. Both cash dividends will be paid on the total number of shares outstanding, including the shares issued as the 10% stock dividend.

B. C. HEMMER
Secy. & Treasurer

September 15, 1955.

HAZEL-ATLAS GLASS COMPANY

WHEELING, W. VA.

DIVIDEND NOTICE

A quarterly cash dividend of 30 cents per share on the Capital Stock of the Company, will be paid January 2, 1956 to stockholders of record at the close of business December 16, 1955.

H. G. LEWIS
Vice President and Secretary

Harbison-Walker Refractories Company

Pittsburgh Pennsylvania

October 27, 1955

Board of Directors has declared for quarter ending December 31, 1955 DIVIDEND of ONE and ONE-HALF (1½%) PER CENT or $1.50 per share on PREFERRED STOCK, payable January 20, 1956 to shareholders of record January 5, 1956.

Also declared a DIVIDEND of 62½c per share on COMMON STOCK, payable December 1, 1955 to shareholders of record November 10, 1955.

G. F. CRONMILLER, JR.
Vice President and Secretary

Southern Industrial Hospitality

The L&N served South invites you to consider carefully the factors it can offer you for a profitable plant location.

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- Rapidly growing markets within the South
- Excellent living and recreational conditions
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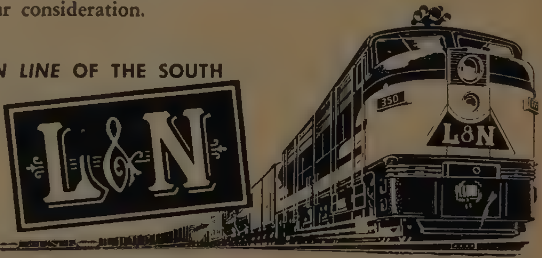
Your plant site problem will gladly be studied by our industrial development staff. A confidential analysis will be submitted without obligation for your consideration.

THE *PRODUCTION LINE* OF THE SOUTH



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PRODUCT OF NATIONAL DISTILLERS

DIVIDEND NOTICE

The Board of Directors has declared a quarterly dividend of 25c per share on the outstanding Common Stock, payable on December 1, 1955, to stockholders of record on November 10, 1955. The transfer books will not close.

PAUL C. JAMESON
October 28, 1955 *Treasurer*

SOUTHERN NATURAL GAS COMPANY

Birmingham, Alabama

Common Stock Dividend No. 67

A regular quarterly dividend of 45 cents per share has been declared on the Common Stock of Southern Natural Gas Company, payable December 13, 1955 to stockholders of record at the close of business on November 30, 1955.

H. D. McHENRY,
Vice President and Secretary.

Dated: October 8, 1955

Manufacturers of AE

AMERICAN ENCAUSTIC TILING COMPANY, INC.

Wall & Floor Tile

COMMON STOCK DIVIDENDS

Declared October 20, 1955

Quarterly—15¢ per share
Extra—10¢ per share

Payable November 29, 1955
Record Date November 15, 1955

America's OLDEST Name in Tile

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THE **W. L. Maxson** CORPORATION

460 West 34th St., N.Y. 1, N.Y.

MAXSON

Notice of
QUARTERLY CASH DIVIDEND
10¢ a share

Payable December 1, 1955
Record date, November 17, 1955

October 27, 1955

GOODYEAR

DIVIDEND NOTICE

The Board of Directors today declared the following dividend:

50 cents per share on the Common Stock, payable December 15, 1955 to stockholders of record at the close of business November 15, 1955.

The Goodyear Tire & Rubber Co.
By Arden E. Firestone, *Secretary*
Akron, Ohio, October 11, 1955

THE GREATEST NAME IN RUBBER

GENERAL PORTLAND CEMENT COMPANY

COMMON STOCK DIVIDEND

The Board of Directors of General Portland Cement Company has this day declared a dividend upon its Common Stock of 40 cents per share, payable September 30, 1955 to stockholders of record at the close of business on September 12, 1955. the stock transfer books will remain open.

HOWARD MILLER,
August 16, 1955 Treasurer

Through an error the address of

The Analysts Journal

is incorrect in the

1955 Directory of the
National Federation of Financial Analysts Societies

It should be

Room C-903
270 Park Avenue
New York 17, N. Y.

COSTUME BY HANNAH TROY

The Lady is Styled in Petrochemicals

Look at her costume. It's woven of new "miracle" fibers made possible by petrochemical ingredients. So is her hat. And the handbag she carries is fashioned from a petrochemical synthetic. Petrochemicals have even helped style her hair, in the new shampoo product she uses.

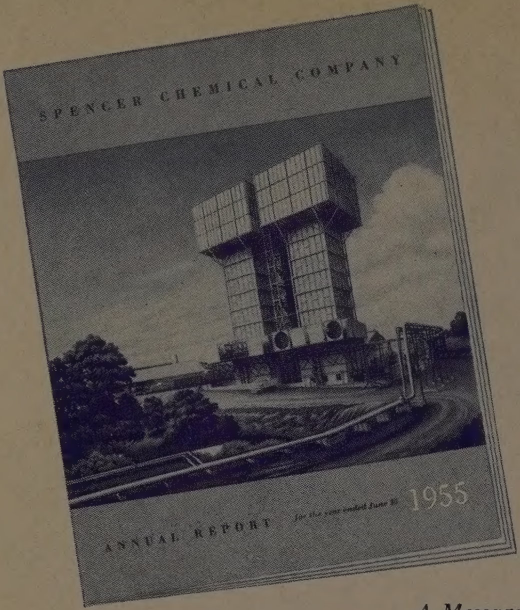
Every day finds new consumer and industrial uses for these petrochemicals derived from petroleum and natural gas. That's why Sinclair Chemicals, Inc., subsidiary of Sinclair Oil Corporation, is taking strides to keep pace with the rising need for petrochemicals.

Recently, Sinclair's new Aromatic Recovery Unit went "on stream" at Marcus Hook. The plant recovers Toluene, Xylene, ParaXylene and other aromatic hydrocarbons used in the manufacture of plastics, protective coatings and synthetic fibers. These facilities will turn out millions of pounds of petrochemicals every year.

Sinclair Chemicals, Inc., is another example of the Company's growth in the highly competitive petroleum industry.

SINCLAIR
A Great Name in Oil

SINCLAIR OIL CORPORATION • 600 FIFTH AVENUE • NEW YORK 20, N. Y.



SPENCER®

PROGRESS REPORT FOR 1955

A Message from the President

Net sales of the Company established a new record in the fiscal year ended June 30, 1955. Net earnings were down slightly because of non-recurring expenses in connection with the start-up of our new polyethylene plant at Orange, Texas. While capital expenditures were large, new financing and retained earnings increased working capital to $20,381,000.

We are encouraged by our initial polyethylene production and sales experience and expect this venture to be a profitable one for the Company. We anticipate satisfactory results from sales of our nitrogen products in the current fiscal year. The Company continues to emphasize its research program and has approved construction of a new research center near Kansas City, Mo., for completion in 1956.

The overall outlook is encouraging and stimulating. The present national climate for business gives all of us confidence. Barring unforeseen obstacles, the current fiscal year should be a very satisfactory one for the Company.

Kenneth A. Spencer

SUMMARY OF CONSOLIDATED INCOME

	Year Ended June 30	
	1955	1954
NET SALES OF PRODUCTS	$36,154,921	$34,104,178
COST AND EXPENSES:		
Cost of products sold	$19,592,521	$17,578,421
Selling, administrative and other expenses (net)	6,178,946	4,908,673
	$25,771,467	$22,487,094
NET INCOME BEFORE TAXES	$10,383,454	$11,617,084
FEDERAL AND STATE INCOME TAXES	5,265,000	6,330,000
NET INCOME	$ 5,118,454	$ 5,287,084

CONDENSED STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

	Year Ended June 30	
	1955	1954
CURRENT ASSETS	$27,950,067	$29,168,905
CURRENT LIABILITIES	7,568,987	10,184,668
WORKING CAPITAL	$20,381,080	$18,984,237
PLANTS AND EQUIPMENT	45,366,863	38,095,132
OTHER ASSETS (net)	408,485	748,793
NET ASSETS	$66,156,428	$57,828,162
BORROWED CAPITAL	$25,000,000	$25,000,000
PREFERRED STOCK (less sinking funds)	14,550,000	7,484,512
COMMON STOCK EQUITY	26,606,428	25,343,650
SOURCES OF NET ASSETS	$66,156,428	$57,828,162

Spencer Chemical Company's Report for fiscal 1955 has just been published. A copy will be mailed to you on request.

Spencer
CHEMICAL COMPANY
Dwight Building · Kansas City 5, Missouri

WORKS: Pittsburg, Kansas • Henderson, Kentucky
Vicksburg, Mississippi • Chicago, Illinois • Orange, Texas

SPENCER PRODUCTS

POLY-ETH
  (Spencer Polyethylene)
Anhydrous Ammonia
Refrigeration Grade Ammonia
Aqua Ammonia
Methanol
Formaldehyde
"Mr. N" Ammonium
  Nitrate Fertilizer
SPENSOL
  (Spencer Nitrogen
  Solutions)
83% Ammonium
  Nitrate Solution
FREZALL
  (Spencer Dry Ice)
Cylinder Ammonia
Hexamine

America's Growing Name in Chemicals